**Illuminating the black box: The role of leaders on organizational outcomes**

**Abstract**

While managers and researchers have invested considerable effort into understanding what factors affect corporate social responsibility (CSR), less is known about corporate social irresponsibility (CSiR). Drawing on strategic leadership and moral licensing research, we address this gap by considering the relationship between CSR and CSiR. We predict that prior CSR is positively associated with subsequent CSiR because the moral credits achieved through CSR enables leaders to engage in less ethical stakeholder treatment. Further, we hypothesize that leaders' moral identity will moderate the CSR-CSiR relationship, such that the relationship will be stronger when CEOs are high moral identifiers rather than low moral identifiers. Through an archival study of 49 Fortune 500 firms we find support for our hypotheses.

**Illuminating the black box: The role of leaders on organizational outcomes**

In 2008, the CEO of British Petroleum (BP), Tony Hayward, announced that BP's safety record, which was one of his key foci as head of BP, was "now among the best in our industry" (BP, 2008). Under his leadership, BP ran operational safety training sessions for its employees and encouraged a culture of safety in an effort to attend to key stakeholders such as employees, the community and the environment (Kolmar, 2007). Yet in 2010, the Deepwater Horizon explosion shattered BP's positive safety record when managers missed key safety warning signs, resulting in the loss of eleven lives and one of the worst oil spills in history (Rogers, 2010). Moreover, Hayward's reaction to the spill was seen as cold, minimizing BP's responsibility for the spill as well as the environmental damage to the Gulf (Korosec, 2010; Zarroli, 2010).

Following from such instances of corporate wrongdoing, business practitioners and academics have dedicated increased attention to firms' corporate social responsibility (CSR), which refers to firm behavior that goes beyond compliance or legal requirements to provide some social good (McWilliams & Siegel, 2001). One prominent approach to understanding CSR is the stakeholder approach in which a firm is deemed as socially responsible when its actions attend to the interests of not only its shareholders, but also other firm stakeholders (Branco & Rodrigues, 2006; Carroll, 1991,1999; Godfrey & Hatch, 2007). Drawing on this stakeholder approach, researchers have focused on understanding the antecedents and consequences of CSR. For instance, top management team demographics, values, sociocognitive traits, and firm attributes such as decentralization of decision making and research and development expenditures have all been identified as important antecedents to a firm's ability to manage the needs of multiple stakeholders (e.g.,

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McWilliams & Siegel, 2001; Thomas & Simerly, 1994, 1995; Waldman, de Luque et al., 2006; Wong, Ormiston & Tetlock, 2011). In turn, research indicates that, on average, CSR is positively related to firm financial performance (for a review, see Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003).

Although this research has advanced our understanding of CSR, several important questions remain. First, although we have a better understanding of CSR, we have less of an understanding of corporate social *irresponsibility* (CSiR; Lange & Washburn, 2012), which refers to actions that negatively impact the interests of stakeholders (Strike, Gao, & Bansal, 2006). The limited research on CSiR has considered how CSiR and CSR are related, with research finding that they can occur concurrently (e.g., Strike et al., 2006) or that CSiR is offset by subsequent CSR (e.g., Chatterji & Toffel, 2010; Kotchen & Moon, 2011; Muller & Kräussl, 2011). For instance, Chatterji and Toffel (2010) found that firms that received negative environmental ratings subsequently improved their environmental performance. Although such research helps us to better understand the relationship between CSiR and subsequent CSR, it does not consider whether CSR influences subsequent CSiR. For example, returning to the BP example at the beginning of this paper, the current literature provides little guidance to understanding the conditions under which BP's socially responsible behavior (i.e., increasing its safety record) might have subsequently increased its less responsible behavior (i.e., ignoring safety warnings and minimizing BP's responsibility). Second, studies examining CSR and CSiR have generally provided a firm-level perspective of this relationship. However, given that strategic leaders (i.e., CEO and the senior executives who belong to the top management team) make strategic decisions about CSR, it is surprising how little is known about the effect of top leaders on CSR (but see Thomas & Simerly, 1995;

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Wong et al., 2011), and none to our knowledge examine the effects of leaders on CSiR. Relatedly, little research applies social psychological theories to understand CSR (Rupp, Williams, & Aquilera, 2010), even though these theories could elucidate *when* leaders' personal characteristics influence the CSR-CSiR relationship. As such, important questions remain as to whether and when leaders influence the relationship between CSR and CSiR.

In this article, we address these questions by examining the relationship between CSR and CSiR. In particular, we study whether prior CSR affects subsequent CSiR. We approach this question through the lens of strategic leadership, which suggests that leaders influence organizational strategy, and in turn, firm outcomes (e.g., Finkelstein & Hambrick, 1996) such as CSR and CSiR. More specifically, we focus on the effects of strategic leaders' psychological processes on CSiR. We draw on moral licensing research to argue that top leaders who have previously implemented CSR strategies will glean moral credits from this past behavior, subsequently leading them to develop a strategy that mistreats firm's stakeholders. Further, we consider the moderating role of leaders' moral identity on this relationship. Although moral licensing research consistently shows a positive relationship between moral behavior and subsequent immoral behavior, recent research suggests that this relationship may be affected by individual differences. One relevant individual difference is moral identity, a personal characteristic that reflects the degree to which being moral is central to one's sense of self (Aquino & Reed, 2002; Blasi, 1984; Miller & Effron, 2010; Mulder & Aquino, 2012 ; Zhong, Ku, Lount, & Murnighan, 2010). By examining the effect of strategic leaders' psychological processes and personal characteristics on CSiR, our research furthers

our academic understanding of CSR and CSiR and has practical implications for business practitioners.

## The Influence of Prior Corporate Social Responsibility on Corporate Social Irresponsibility

Over the past few decades, firm stakeholders, including shareholders, consumers, and employees, have put increasing pressure on firms to manage their interests; in other words, firms are increasingly expected to heed the calls of their multiple stakeholders. When firms are able to successfully manage these myriad demands, they are deemed socially responsible (Freeman, 1984). As business practitioners' demands and academicians' understanding of CSR have become finer-grained, so too have the definitions of CSR. Greenwood (2007) suggests CSR runs along a continuum anchored at one end by firms that actively engage with and act in the interest of varied stakeholders (i.e., are responsible), and anchored at the other end by firms that have more limited interactions with and may act in the interest of only powerful stakeholders (i.e., are irresponsible). Others have argued that although responsibility and irresponsibility are related constructs, they are distinct and thus should not be considered as opposite ends of the same continuum (Kotchen & Moon, 2011; Mattingly & Berman, 2006; Oikonomou, Brooks & Pavelin, 2012; Strike et al., 2006). This more recent distinction between CSR and CSiR highlights that they both involve action towards stakeholders and that firms can potentially engage in both CSR and CSiR. We adopt this view and consider stakeholder management to involve both CSR, or actions that attend to the interests of multiple stakeholders beyond just shareholders (Branco & Rodrigues, 2006; Carroll, 1991, 1999; Godfrey & Hatch, 2007), as well as CSiR, or actions that neglect the interests of stakeholders (Strike et al., 2006). Examples of CSR include charitable giving within a community, providing

employees flexible work arrangements such as flex-time, and ensuring the quality of consumer goods. Alternatively, examples of CSiR include actions that have resulted in controversies concerning the firm's economic impact on the community, gender discrimination, and designing and selling unsafe products and services (Kaptein, 2008). In short, the more positive actions towards its stakeholders, the more socially responsible a firm is deemed, whereas the more negative actions towards its stakeholders, the more socially irresponsible a firm is deemed (Strike et al., 2006).

Given these distinctions between CSR and CSiR, a growing body of research has sought to understand and clarify their relationship. In a first examination of the CSR-CSiR relationship, Mattingly and Berman (2006) found that environmental CSR was positively correlated with environmental CSiR. They noted, "perhaps firms that tend to adopt environmentally friendly programs are often those that tend also to cause harm or to extract from it" (p. 34) and suggested that further research into this positive correlation between CSR and CSiR was needed. One such study found that international diversification led to both CSR and CSiR suggesting that firms could simultaneously be responsible and irresponsible towards their stakeholders (Strike et al., 2006). Other research suggests that socially irresponsible behavior (i.e., CSiR) sets the stage for subsequent socially responsible behavior (i.e., CSR; e.g., Chatterji & Toffel, 2010; Kotchen & Moon, 2011; Muller & Kräussl, 2011). For example, Muller and Kräussl (2011) found that companies with poor social reputations were more likely to make disaster relief donations after Hurricane Katrina than were companies with positive social reputations. The key argument underlying these studies is that firms offset their negative reputation by engaging in CSR.

Although previous research on the link between CSR and CSiR has primarily taken a firm-level approach, we propose that a more micro-level approach would be

useful to untangle the linkages between CSR and CSiR. In this paper, we draw upon strategic leadership theory and apply psychological licensing research to this framework to examine the role of strategic leaders' psychological processes and personal characteristics on CSiR. Below, we briefly review these approaches.

With regard to the strategic leadership approach, one fundamental tenet is that leaders (e.g., the CEO and senior executives who comprise the top management team [TMT]) typically make decisions regarding the firm's strategic direction, including social performance policies (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984; Thomas & Simerly, 1994; Wood, 1991). Thus, we approach our understanding of the influence CSR has on CSiR through an examination of the ways in which leaders' strategic decisions regarding CSR relate to their subsequent CSiR decisions.

Research on psychological licensing can help us understand how leaders' strategic decisions regarding CSR can subsequently influence CSiR. Psychological licensing refers to perceiving that one can behave in a potentially socially undesirable way without fear of discrediting his/her self-image (Miller & Effron, 2010). Whether an individual feels licensed or not is based on one's past behavior (Monin & Miller, 2001). For instance, having been a healthy eater for eleven months out of the year, one may feel licensed to indulge during the holiday season. In this way, one can still feel as though they are a healthy person because the eleven months of healthy eating bolsters one's self-image, and therefore, diminishes the risk of discrediting him/herself as an unhealthy person.

The concept of licensing in moral domains (termed moral licensing) is germane to our focus on CSiR. Moral licensing is the psychological process that leads people to engage in morally questionable behavior after having previously engaged in socially desirable behavior. According to moral licensing research, people desire to

maintain a positive moral image not only to others but also to themselves (Mazar, Amir, & Ariely, 2008; Monin & Jordan, 2009; Monin & Miller, 2001). Therefore, they want to avoid engaging in actions that are morally discrediting or that signal to themselves or others that they are unethical (Monin & Miller, 2001). As in the case of general psychological licensing, when determining if an action will be morally discrediting, people look to their past behavior, and if "people can call to mind previous instances of their own socially desirable or morally laudable behaviors, they will feel more comfortable taking actions that could be seen as socially undesirable or morally questionable" (Miller & Effron, 2010: 118).

A number of studies have shown moral behavior leads to immoral behavior at the individual level. For instance, research has found that moral licensing is domain specific such that engaging in moral behavior in one domain leads to immoral behavior in the same domain. In one of the first demonstrations of this effect, Monin and Miller (2001) found that people who were given the opportunity to disagree with sexist statements (e.g., "Most women are better off at home taking care of the children") were subsequently more likely to make a sexist decision about who to recruit for a factory job. Monin and Miller termed this process of non-prejudiced attitudes (i.e., socially desirable behavior) subsequently leading to prejudiced attitudes (i.e., morally questionable behavior) as "moral licensing." Although a large body of research has demonstrated the domain specific nature of moral licensing, recent research also shows non-domain specific moral licensing can occur such that being ethical in one domain (e.g., environmentalism) licenses a person to be less ethical in another domain (e.g., philanthropy; Mazar & Zhong, 2010). As applied to our research, these studies are important in that, first, moral licensing is argued to have

occurred when moral behavior leads to immoral behavior, and second, it can be either domain or non-domain specific.

Not only does one's own past moral behavior license someone to subsequently engage in immoral behavior, but moral licensing research finds people use the actions of their ingroup, or similar others, as a guide for their own future behavior (termed vicarious moral licensing). Drawing on research on identity and vicarious self-concept theory (Goldstein & Cialdini, 2007), Kouchaki (2011) suggested that people incorporate aspects of important others into their own self-concept and use others' moral behavior to define who they are. As such, when ingroup members behave in a moral manner, individuals internalize this moral behavior as their own and subsequently feel licensed to engage in morally questionable behavior.

Researchers suggest that one reason people feel licensed to engage in morally questionable behavior after previously engaging in socially desirable behavior is that moral behavior is like a monetary currency (or creates moral credits) that can be banked and then drawn on when engaging in less moral behavior (Sachdeva, Iliev, & Medin, 2009). Nisan's (1991) moral balance model first discussed this notion of moral credits, arguing that individuals aim to maintain moral balance (i.e., balance moral credits and debits) and use past behavior to determine their balance. When a person has gained enough credits to achieve moral balance they are subsequently more likely to engage in immoral behavior. This inconsistent behavior (i.e., immoral behavior after moral behavior) is thought to stem from people's tendency towards self-interest (desire to be less moral) on the one hand, and their tendency to behave according to social norms (desire to appear moral) on the other hand (Beruchashvili, Gentry, & Price, 2006; Sachdeva et al., 2009). Nisan found more support for his moral balance model than a moral maximization model, whereby individuals aim to

be as moral as possible, and which would predict that people would continue to engage in moral action after previous moral action. We draw on this moral credits argument to suggest that after making strategic CSR decisions, leaders are subsequently more likely to engage in unethical behavior because of the moral credits they believe they have accumulated.

Although research has not yet examined moral licensing at the organizational level, we propose that leader moral licensing can have organizational-level effects. Specifically, because top leaders influence firms' strategic decision making processes (Finkelstein & Hambrick, 1996; Finkelstein, Hambrick & Cannella, 2009), when they feel licensed to engage in wrongdoing after past CSR it may have organizational-level effects. Given that people desire to appear moral, top leaders will feel pressure to develop socially responsible strategies that consider the needs of multiple stakeholders. The development and implementation of a CSR strategy may help leaders create a moral image of themselves and their firm, and ultimately provide a sense of accumulated moral credits. For instance, prior to the Enron scandal, former CEO Kenneth Lay endowed chaired positions at universities as well as donated vast amounts of money to charity (Philanthropy News Digest, 2001). Indeed, "upon his taking the helm of the corporate merger that resulted in Enron, Lay became a big player in the charitable and philanthropic environment of Houston, the state, and the nation" (Non-Profit Quarterly, 2006). Such behavior on the part of the leader builds his social responsibility credits that may license him to subsequently commit socially irresponsible behavior. In other words, top leaders may feel that when they have acquired moral credits through a CSR strategy that balances the needs of multiple stakeholders, they can subsequently put forth a strategy that cuts corners or is potentially harmful to stakeholders.

A second route that CSR could subsequently lead to CSiR is through employees' reaction to their leader's previous CSR strategy. Recall that when a person feels strongly identified with another individual or group, he internalizes their past moral behavior and subsequently is more likely to engage in unethical behavior (Kouchaki, 2011). Applied to organizations, employees who identify with their organizational leaders may feel that the prior CSR strategy set by these leaders licenses them to be less careful in their relationship with stakeholders. For example, recall CEO Hayward's implementation of a safety culture at BP. BP employees may have felt have that Hayward's actions and more broadly the firm's reputation for being safety-conscious carried over to them and they may subsequently have been less careful about monitoring key safety warning signs.

In sum, we argue that top leaders are in charge of making key strategic decisions that influence firm outcomes and that when they implement a CSR strategy it helps them accrue moral credits. These moral credits allow them to be less vigilant towards managing stakeholder needs or even engage in unethical behavior without discrediting themselves or their organization. Moreover, employees may feel licensed to engage in unethical behavior towards stakeholders because they have categorized their leader as part of their ingroup and internalized their past CSR action. Formally, we propose:

*Hypothesis 1: Prior CSR is positively associated with subsequent CSiR.*

**The Influence of CEO Moral Identity on the CSR-CSiR Relationship**

Although the aforementioned research on moral licensing implies that individuals are generally inclined to engage in morally questionable behavior after having engaged in socially desirable behavior, there have been recent calls to examine *when* licensing occurs and whether some people instead remain consistent in their

moral behavior across time (Merritt, Effron, & Monin, 2010). Indeed, past psychological research finds that people have a basic drive to remain consistent in their behavior over time and to experience consistency in their beliefs and behaviors (Audia, Locke & Smith, 2000; Bem, 1972; Festinger, 1957); and therefore, it is important to understand *when* inconsistency trumps people's basic desire for consistency. Some boundary conditions to moral licensing have been suggested, with Zhong and colleagues (2009), for instance, proposing that those with high moral maturity, or people who consider morality as central to their identity, should be more consistent in their moral action over time than are those with low moral maturity because it is more critical to them that they maintain a positive moral image. As such, one personal characteristic that may be important to understanding the link between CSR and CSiR is leaders' moral identity.

Moral identity is one of the many identities (e.g., political, ethnic, professional) that define a person (Aquino & Reed, 2002; Blasi, 1984; Tajfel & Turner, 1979). As with many psychological constructs, moral identity varies between people and can also be primed by contextual factors in one's environment (Aquino & Reed, 2002; Aquino, Reed, Thau & Freeman, 2007; Blasi, 1984). In this paper, we take an individual difference perspective. A central assumption in this individual difference perspective is that people vary in the extent to which being moral is central to their sense of self (Blasi, 1984). From this perspective, those who are higher on moral identity (i.e., high moral identifiers) draw upon this self-definition to process information and regulate their moral behavior (Aquino & Reed, 2002; Lapsley & Lasky, 2001). Conversely, for those lower on moral identity (i.e., low moral identifiers) morality is not as central to their sense of self and therefore is less critical

in guiding information processing or regulating moral action and behavior (see Shao, Aquino & Freeman, 2008 for a review).

According to Aquino and his colleagues (e.g., Aquino & Reed, 2002; Mayer, Aquino, Greenbaum, Kuenzi, 2012; Reed & Aquino, 2003), moral identity is comprised of two components: internalization, which refers to the degree to which moral identity is central to one's sense of self and is privately expressed, and symbolization, which refers to the degree to which moral identity is expressed outwardly to the public through actions and behavior. Given the public nature of leadership roles and the degree to which leaders often actively manage others' impressions of them and the situation surrounding them (Pfeffer, 1981; Weick & Daft, 1983), we focus on how symbolization of a leader's moral identity influences the relationship between prior CSR and CSiR.

Individuals higher on moral identity symbolization present themselves, belong to groups, and engage in activities and behaviors that signal to others they are moral beings. These symbolic gestures may or may not accurately reflect a person's internalized moral identity. As such, individuals high on moral identity symbolization may engage in symbolic gestures of morality that mislead people about the value they place on morality (i.e., the gestures may be inauthentic). Relatedly, individuals higher on moral identity symbolization are attentive to how others perceive them as well as careful about managing people's impressions of them (Bolino, 1999). Alternatively, individuals who are lower on moral identity symbolization make little effort to signal to others that morality is important to them and may even engage in behavior that signals that morality is not valued.

To formulate our arguments regarding the impact of a leader's moral identity on the CSR-CSiR relationship, we draw upon a recent study by Mulder and Aquino

(2012) that examined the role of moral identity internalization in the relationship between past and subsequent moral action. They found that high moral identifiers were *less* likely to donate money to a charity after previously telling the truth than were low moral identifiers who remained consistent in their behavior (i.e., they donated money to a charity after previously telling the truth). To explain these seemingly paradoxical effects, Mulder and Aquino draw on control theory (Carver & Scheier, 1982; Weiner, 1948) to suggest that attaining a moral standard (i.e., a goal of being moral) is more important for high moral identifiers than for low moral identifiers. When high moral identifiers have not met or conversely have surpassed their moral standard, they engage in "discrepancy reduction efforts" (Karoly, 1993: 33) to achieve balance between their current and desired moral state. And when high moral identifiers have met their moral standard (i.e., satisfied their goal), they focus on other goals, even goals that may result in less ethical behavior. They suggest that these efforts to meet a moral standard are what results in either moral cleansing (when high moral idenitifers have previously engaged in moral behavior) or moral licensing (when high moral identifiers have previously engaged in immoral behavior). This research provides a better understanding of how internalization of moral identity affects the relationship between past and subsequent moral actions. However, questions remain as to the role of moral identity symbolization on past and subsequent moral actions at higher levels of analysis (e.g., firm).

We draw upon Mulder and Aquino's research to explore the role of leader moral identity symbolization on the CSR-CSiR relationship. Specifically, their findings suggest that CEOs who are low moral identifiers will remain consistent in their moral behavior over time, whereas CEOs who are high moral identifiers will be more likely to engage in CSiR after previously engaging in CSR.

First, let us consider the case of high levels of prior CSR. High levels of past CSR should signal to leaders with strong moral identity symbolization that they have met their goal of appearing moral to others. In other words, these leaders will perceive that their past symbolic gestures of morality (i.e., prior CSR) have bolstered their moral credits. As such, this goal of appearing moral will be less accessible or active for high moral identifying leaders causing them to engage in fewer symbolic acts that signal their moral image to others. Instead, they may attend to other goals that may have been ignored (e.g., shareholder wealth), potentially resulting in unethical management of stakeholders (e.g., harming the environment in an effort to increase profits for shareholders). Alternatively, comparing their current state to a moral standard will not be as important to low moral identifiers. Instead, low moral identifiers are likely to focus on other goals that are more central to their self-definition. Therefore, low moral identifying leaders will not be as reactive to past ethical behavior and instead will be more likely to remain consistent in their strategies towards stakeholders irrespective of past CSR.

Next, consider the case of low levels of prior CSR. In this case, leaders with strong moral identity symbolization will feel that their current state does not meet their standard of appearing moral to others. In other words, they have not accrued enough moral credits to satiate their need to appear moral to themselves and others. Past research finds that when an individual's moral identity is threatened, and thus the desire to meet this moral standard is heightened, he will engage in ways to self-symbolize a positive moral image (Burke, 1991; Skarlicki, Van Jaarsveld, & Walker, 2008). As such, we predict that the high moral identifying leader may be more likely to attend to this signal and actively work to be viewed as socially responsible by stakeholders. One way in which this may occur is through reduced wrongdoing

towards stakeholders. For example, the CEO may publicly communicate to employees that wrongdoing towards stakeholders is unacceptable. On the other hand, as mentioned above, because appearing moral will be less important to low moral identifying leaders, they will engage in the same level of CSiR, irrespective of past CSR.

> *Hypothesis 2: Moral identity symbolization moderates the influence of prior CSR on CSiR, such that the influence of CSR on CSiR is more positive when CEOs are high moral identifiers rather than low moral identifiers.*

## Method

**Sample**

We tested our predictions in a business context using a sample consisting of 49 publicly traded Fortune 500 organizations. The organizations examined in this paper were taken from a larger study examining the relationships among CEO characteristics, top management team processes and firm performance during the time period 1996-2002 (see Wong et al., [2011], for details on the sampling process). Following Wong and her colleagues, (2011), because of the qualitative nature of the present study, we only examined firms from the 2002 Fortune 500 list that had a reasonable amount of media coverage (i.e., at least ten articles of approximately 1000 words of media coverage during our time period). From this process, the list was narrowed to 65 firms. For each of these 65 firms we then collected articles in the business press and books that described the behavior and personality of each firm's CEO. In order to be included in the sample, there needed to be sufficient information on the CEO to be able to complete an assessment using the California Adult Q-sort, a forced distribution methodology that allows description of a person using first and third party data (CAQ; Block, 1961; Peterson, Smith, Martorana & Owens, 2003). We

used similar guidelines as those used to collect articles for previous at-a-distance research (i.e., at least ten articles of approximately 1000 words of media coverage during our time period; Tetlock, Peterson, McGuire, Chang, & Feld, 1992; Peterson et al., 2003; Wong et al., 2011). This narrowed our sample to 55 CEOs. Finally, we collected CSR and CSiR data on each firm. Due to missing data our final sample included 49 organizations. For the organizations that had multiple CEOs during the 1996-2002 time period, we selected those CEOs who were in office during the latter part of our time period[1]. The organizations in our sample represented a range of industries (e.g., retail, computer manufacturing) and had an average of $4.0 billion in sales and 138,429 full-time employees. Examples of organizations in our sample include: International Business Machines, Inc., Nike, Inc., and PepsiCo, Inc.

**Measures**

      **Independent variable: CSR.** Our measure of CSR was obtained from Kinder, Lydenberg, Domini Inc.'s (KLD) social ratings, which is a commonly used measure of CSR that is considered to be a comprehensive measure of multiple stakeholders' needs (e.g., Agle, Mitchell, & Sonnefeld, 1999; Kotchen & Moon, 2011; Strike et al., 2006). KLD ratings examine both positive action (i.e., strengths) and negative action (i.e., concerns) towards a variety of stakeholders. It should be noted that CSR is often measured as an aggregate of the KLD scores that subtracts KLD concerns from KLD strengths (Graves & Waddock, 1994; Hillman & Keim, 2001; Thomas & Simerly, 1995). However, recent research has suggested that KLD strengths and KLD concerns should be examined separately (e.g., Kacperczyk, 2009; Mattingly & Berman, 2006; Strike et al., 2006). Following Strike and colleagues (2006), we utilize KLD strengths to measure CSR and KLD concerns to measure CSiR.

Specifically, the KLD strength ratings are generated by ascertaining a firm's strengths along seven key stakeholder benchmarks (community relations, diversity, employee relations, environment, product, corporate governance, and human rights). Each benchmark is composed of multiple sub-indicators. For each of these sub-indicators, organizations are assigned a dichotomous rating of 1 or 0 for the presence of a CSR strength. For example, for the employee relations benchmark, a CSR strength is when the organization has a history of strong union relations. For the community relations benchmark, an example of a CSR strength is the organization consistently gives more than 1.5% of its net earnings to charity.

To obtain our measure of CSR we averaged each firm's KLD strengths scores for the seven benchmarks (Deckop, Merriman, & Gupta, 2006; Wong et al., 2011). Past research on CSR has found significant industry effects (e.g., Waddock & Graves, 1997), and therefore, following Agle et al. (1999) and Waldman, Siegel et al. (2006) we controlled for firm industry by subtracting the industry mean from the CSR score for each firm.

In this study, we used KLD strengths data from 2001 to 2002 to create our CSR measure. Following Agle and his colleagues (1999), we smoothed the data by averaging across the two years. The average CSR score adjusted for industry was .48 ($sd$ = .43). The higher the CSR score the more a firm met the needs of the seven stakeholders.

**Independent variable: Moral identity.** The most common method utilized to assess moral identity is self-report measures of the importance of moral traits in terms of centrality to self-definition (internalization) as well as the extent to which one's behaviors emblemize these traits (symbolization) (Aquino & Reed, 2002). Aquino and Reed (2002) developed a list of nine traits that describe a moral person: caring,

compassionate, fair, friendly, generous, helpful, hardworking, honest, and kind. This list of traits is not meant to be exhaustive, but rather, representative of a moral person. In their study, participants were asked to imagine a person who represented these traits and then respond to five items measuring internalization (e.g., "Being someone who has these characteristics is an important part of who I am") and five items measuring symbolization through the behaviors, activities, and organizational memberships that reflected these traits (e.g., "I am actively involved in activities that communicate to others that I have these characteristics"). They correlated these self-report scales with other methods of moral identity assessment including implicit measures of morality (Study 2) as well as judges' ratings of morality based on individuals' descriptions of their personality (Study 4). Because top leaders typically do not submit to lengthy psychological tests (Hambrick, 2007; Sumanth & Cable, 2011), we could not use self-report measures of moral identity symbolization. Instead, we adapted Aquino and Reed's (2002) measurement by utilizing judges' ratings of leaders' moral identities based on publicly-available information on their personal characteristics (i.e., behavior and personality).

In particular, to assess moral identity symbolization, we employed a Q-sort methodology. The Q-sort methodology asks evaluators to observe or read information on a person, group or organization and then rank a set of statements or items in terms of how characteristic they are of the person (i.e. California Adult Q-sort, Block, 1961), group (Group Dynamics Q-sort; Peterson, Owens, Tetlock, Fan & Martorana 1998), or organizational culture (Organizational Culture Q-sort, O'Reilly, Chatman & Caldwell, 1991). One of the strengths of the Q-sort methodology is that it combines "the descriptive richness of the qualitative approach with the rigor of a quantitative approach by creating a common data language to describe" (Peterson, Owens, &

Martorana, 1999: 107) individuals, groups, or organizations across time and situations. Moreover, it is possible to utilize publicly available information to conduct the Q-sort, thus allowing measurement of individuals or groups that are normally difficult to examine (Peterson et al, 1999).

Because we were interested in examining individual leaders, we utilized the California Adult Q-sort (CAQ; Block, 1961), which is composed of 100 items that describe an individual. Sample items from the CAQ include "Behaves in an assertive fashion; not afraid to express opinions; speaks up to get what s/he wants" and "Has a rapid personal tempo; behaves and acts quickly; is fast-paced." Research assistants, who were blind to the study's hypotheses, independently reviewed publicly available interviews and biographies of each CEO in our sample and then rated him/her in terms of each of the one hundred items by sorting them into those that were most characteristic and least characteristic of the CEO.

Our measure of moral identity symbolization was composed of seven CAQ items that were representative of moral traits (Aquino & Reed, 2002). Four sample items of our moral identity symbolization scale include: "Behaves in a sympathetic and considerate manner," "Has warmth; has capacity for close relationships, compassionate," "Is dependable, responsible" and "Behaves ethically," which mapped on to Aquino and Reed's traits of caring or kind, compassionate, helpful or hardworking, and fair, respectively. The mean moral identity symbolization score was 6.68 ($sd$ = .75) and was highly reliable ($\alpha$ = .81).

The specific procedure for the CAQ is as follows. We first collected qualitative information from books as well as the business press. Specifically, we compiled detailed information packets by searching for interviews, speeches, biographies, and autobiographies in the business press (e.g., *Business Week, Fortune,*

and *Forbes*) and books that discussed the CEO's background, behaviors and personality. Each packet included biographies on the CEO from *Marquis Biographies* and the *International Directory of Business Biographies,* as well as multiple articles or interviews from the varied sources mentioned above. Articles or book chapters had to be at least 1000 words in length to be included in the packet. Packets (i.e., total pages of articles) were required to be no fewer than 20 pages but no more than 50 pages (procedure adapted from Peterson et al., 2003).

Research assistants were trained in a series of sessions. They were asked to read through a CEO's packet and write in the margins or mark areas that seemed of particular significance to the CAQ items. After reading through the packet, research assistants were asked to describe the CEO along the 100 CAQ items. Research assistants were told to rely on the information from the packet when making their assessments and disregard any prior knowledge or preconceived notions of the CEO. The specific procedure is as follows: Research assistants began the process by sorting the cards into three stacks, starting with Item 1. Each of the 100 CAQ items is presented on a 2x3 card, which was obtained from Mind Garden, Inc. In the first stack, coders placed those cards for which the qualities or traits were least characteristic of the CEO. In the second stack, research assistants placed all cards for which the qualities or traits were moderately characteristic of the CEO. And finally, the third stack included all cards for which the qualities or traits were most characteristic of the CEO. For this initial card sort, the research assistants were told that no attention needed to be paid to the number of cards falling into each grouping. Once the three stacks had been established, the coders were then told to further differentiate the items, or cards, into more categories, placing the least characteristic statements at one end and the most characteristic statements at the other until the

items were rank-ordered into one of nine categories that ranged from 1 = "most uncharacteristic" to 9 = "most characteristic." Because the CAQ follows a forced distribution, research assistants were told to place fewer cards in the extremes (i.e., only 5 CAQ items can be rated a 1 and only 5 CAQ items can be rated 9) and more cards in the center categories (i.e., 18 CAQ items can be rated a 5). This process is advantageous compared to standard scale-based measurements because it increases inter-rater reliability as well as the predictive power of the measure.

At least two research assistants independently reviewed a CEO's qualitative packet and then individually rated the CEO on the 100 CAQ items. Our inter-rater reliability on our sample of 49 organizations ranged from $\alpha = .71$ to $\alpha = .97$ with an average of $\alpha = .84$ ($sd = .06$). Thus, the research assistants' scores were averaged to create one CAQ-sort per CEO.

**Dependent variable: CSiR.** As with our measure of CSR, our measure of CSiR was obtained from KLD's CSR ratings, specifically the KLD concerns. The KLD concerns ratings are generated by ascertaining a firm's concerning behavior in relation to the same seven key stakeholders (community relations, diversity, employee relations, environment, product, corporate governance, and human rights), with each stakeholder benchmark composed of several sub-indicators. For each of the stakeholder benchmark sub-indicators, organizations are assigned a dichotomous rating of 1 or 0 for the presence of a CSR concern. For example, for the employee relations benchmark, a CSR concern is when the organization has poor union relations. For the community relations benchmark, an example of a CSR concern is the organization has engaged in controversial behavior that has negatively impacted a community's economics (e.g., reducing property value within a community).

Following previous research (e.g., Strike et al., 2006), we averaged the KLD concerns scores along the seven key stakeholder benchmarks to measure CSiR. Additionally, we controlled for firm industry by subtracting the industry mean from the CSiR score for each firm (Agle et al., 1999; Waldman, Siegel et al., 2006; Wong et al., 2011).

In this study, our dependent variable was comprised of KLD concern data from 2003 to 2004 in order to cover the two years after the measure of our independent variable (i.e., CSR). However, subsequent analysis of time lags between 1 and 5 years for our dependent variable indicate the same pattern of results. Following Agle and his colleagues (1999), we smoothed the data by averaging across the two years (i.e., 2003 and 2004). The average social irresponsibility score adjusted for industry was .50 ($sd$ = .44). The higher the CSiR score, the more negligent behavior a firm engaged in towards the seven stakeholders.

**Control variables.** Previous research on social responsibility has found that it is related to firm financial performance (e.g., return on assets; see Margolis & Walsh, 2003 for a review). As such, we control for industry-adjusted firm financial performance using firm return on assets (Agle et al., 1999) averaged over the sample time period. Additionally, following David and colleagues (2007) and Waldman, Siegel et al. (2006), we control for industry-adjusted CSiR over the sample time period. Researchers have also noted the possible effects of firm size and therefore we control for firm size (log of the average sales over the sample time period; e.g., Finkelstein & Hambrick, 1990; Graves & Waddock, 1994; Waddock & Graves, 1997). Following Waldman, Siegel et al. (2006) we also control for CEO tenure (logged). Finally, because our CAQ packets varied in the number of pages, we control for packet length (in pages, logged). Industry data was collected from Dun &

Bradstreet's Key Industry Norms and Ratios, firm data were obtained from

COMPUSTAT, and data for CEO tenure was obtained from Dun and Bradstreet's

Book of Corporate Managements.

**Results**

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Insert Table 1 about here

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Table 1 presents the means, standard deviations, and correlations among the

study variables. Before analyzing our data, we examined the variance inflation factor

(VIF) for all variables in our model to check for multicolinearity. The highest

observed VIF score in our study variables was 1.61, which suggests that

multicollinearity was not a problem as this value is well below the conventional cutoff

of 10.00 (Neter, Wasserman, & Kutner, 1989).

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Insert Table 2 about here

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To test our hypotheses, we regressed CSiR on the control variables, prior

CSR, CEO moral identity symbolization and their interaction term. Table 2 shows the

results of these regressions. In Model 1, the base model, we regressed CSiR on only

our control variables: length of the CAQ packet, CEO tenure, firm size, prior firm

financial performance, and prior CSiR. The overall model results indicate that the

control variables explain approximately 80% of the variance in CSiR.

In Model 2, we regressed CSiR on the control variables, prior CSR and CEO

moral identity symbolization. As seen in step 2 of Model 2, prior CSR has a

significant positive effect on CSiR ($\beta$ = .18, $p$ < .05), providing support for

Hypothesis 1, however moral identity has no relationship with CSiR. The overall model results indicate that the control variables, prior CSR, and moral identity symbolization explain approximately 83% of the variance in CSiR ($p < .05$).

In Model 3 we test the prediction that CEO moral identity symbolization moderates the relationship between prior CSR and CSiR such that the influence of CSR on CSiR is more positive when CEOs are high moral identifiers rather than low moral identifiers (Hypothesis 2). In support of this hypothesis, the interaction between prior CSR and moral identity symbolization is significant ($\beta = .22$, $p < .05$). Simple slope analyses (Aiken & West, 1991) provide support for our hypothesis by showing that CSiR is positively related to prior CSR among high moral identifying CEOs ($b = .43$, $SE = .14$, $t = 3.13$, $p < .01$), whereas CSiR is unrelated to prior CSR among low moral identifying CEOs ($b = -.31$, $SE = .24$, $t = -1.29$, $ns$). These simple effects are depicted in Figure 1. This step explains 2% of the incremental variance in CSiR and yields an $R^2$ of .85 ($p < .05$).

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Insert Figure 1 about here

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**Discussion**

At its pinnacle, Enron was Houston's go-to corporate philanthropist. The company gave heavily to arts groups, scholarship funds, and local medical centers (Philanthropy News Digest, 2001). But for all this good, it also engaged in surreptitious accounting fraud that eventually cost shareholders $11 billion when its stock price dropped from nearly $100/share to $1 at the end of 2001. Such corporate misconduct towards stakeholders continues to be a common occurrence. In response,

business practitioners and academics alike have considered how to increase CSR, and specifically, how leaders can facilitate CSR. This research has been instrumental to our understanding of how to encourage CSR yet it does not directly speak to the impetus for much of this research: whether and when do firms behave *badly*? In this paper, we have begun to address these questions by considering how leader psychological processes and personal characteristics relate to CSiR. Using archival data on Fortune 500 firms, we demonstrated that firms that engaged in prior socially responsible behavior are more likely to subsequently engage in socially irresponsible behavior. Additionally, we found that CEO moral identity symbolization moderates the relationship between prior CSR and CSiR, such that the influence of CSR is more positive when CEOs are high moral identifiers rather than low moral identifiers.

**Theoretical Contributions**

This study has several theoretical contributions for research on CSiR, strategic leadership, and moral licensing. First, previous CSR research has been limited in its examination of the antecedents and consequences of CSiR (Campbell, 2007; Greenwood, 2007). The research that has been conducted has been at the firm-level only and focused on how prior CSiR affects subsequent CSR (e.g., Chatterji & Toffel, 2010; Muller & Kräussl, 2011). Our research complements this research by not only taking a micro-level approach by considering the role of strategic leaders on CSiR, but also by considering the opposite relationship—that of how CSR affects subsequent CSiR. As such, we contribute to our understanding of companies such as Enron or BP that evince both CSR and CSiR. To better understand this relationship, we draw on strategic leadership research, and more specifically moral licensing research, to understand how a leader's implementation of past CSR might license them to subsequently be less ethical and careful when managing stakeholders' needs.

Related to this contribution, researchers have called for studies that utilize social psychological theories to understand CSR, but little research has been done using this lens (e.g., Rupp et al., 2010). Our research responds to this call by examining how an important personal characteristic, moral identity, relates to CSiR. We found that moral identity was not related to CSiR, which at first blush goes against much moral identity research that finds moral identity positively predicts prosocial behavior and negatively predicts antisocial behavior (see Shao et al., 2008 for a review). However, recent research suggests the importance of contextual factors, such as past behavior, in understanding moral identity's effects on moral outcomes (Mulder & Aquino, 2012). In line with this research, we find that moral identity plays an important role in *when* CSR relates to CSiR. This examination helps us better understand leaders' attention to CSR and how it affects subsequent strategic choices about CSiR.

We also contribute to strategic leadership research in which scholars have repeatedly called for studies that consider how the psychological processes of top leaders influence firm-level outcomes (Cannella & Monroe, 1997; Hambrick, 2007). Researchers have noted the difficulty of conducting this research because top leaders generally do not submit themselves to psychological assessments (Cannella & Monroe, 1997; Hambrick, 2007; Hermann, 1999; Sumanth & Cable, 2011). Although past research has utilized demographic variables as proxies of leaders' personal characteristics, we contribute to strategic leadership literature by examining an important, but under-examined, personal characteristic of CEOs (i.e., moral identity) using a novel, non-invasive methodology, the CAQ. Because the CAQ methodology transforms qualitative information into quantitative data, it allowed us to make comparisons across more CEOs and raters than the case study methodology allows.

To our knowledge, our study is the first to examine moral licensing at the organizational level using data with high ecological validity and in this way our research contributes to the burgeoning literature on psychological licensing. Prior moral licensing research has been conducted at the individual level and within experimental settings only to show that participants are more likely to engage in morally questionable behavior after having previously engaged in socially desirable behavior. By using data from Fortune 500 companies, we extend theoretical understanding of this psychological process to leaders and show its organizational-level implications.

Finally, we contribute to recent calls by researchers to consider how individual differences affect moral licensing (Jordan, Mullen & Murnighan, 2011; Miller & Effron, 2010). In particular, previous researchers have suggested that high moral identifiers may be less likely to engage in moral licensing than are low moral identifiers because they are more morally controlled and consistent than are low moral identifiers. However, our findings, which are in line with Mulder and Aquino's (2012) findings, show the opposite. Those who are high moral identifiers may be more morally aware, as opposed to consistent, and thus know when they can and cannot engage in less ethical behavior without compromising their moral integrity. As such, this finding suggests that low moral identifiers are more inclined towards consistency, whereas high moral identifiers are the ones who are inclined towards licensing. Our findings thus demonstrate a boundary condition to moral licensing research by showing that leaders who are less focused on their moral identity are more likely to remain consistent over time. Therefore, this study contributes to our understanding of when inconsistency trumps people's basic desire for consistency (Bem, 1972; Festinger, 1957). Moreover, by focusing on moral identity symbolization we also

contribute to moral identity research, which has most often conducted empirical examinations of moral identity internalization (e.g., Mulder & Aquino, 2012).

**Practical Implications**

In addition to the theoretical contributions of this paper, our results have practical implications as well. First, our findings suggest that governance structures should be put in place that explicitly hold leaders accountable for both stakeholder management and stakeholder mismanagement. Given leaders' propensity to engage in wrongdoing after they have previously engaged in CSR, boards should be particularly careful after the successful implementation of a CSR strategy to ensure that leaders do not become complacent. Moreover, boards should set clear rules about intolerance towards unethical or illegal behavior. In particular, boards need to clearly communicate to top leaders that unethical behavior towards stakeholders will not be tolerated and specify the consequences of such mismanagement. Interestingly, Zhong and colleagues (2009) note that highlighting the importance of "doing good" and rewarding ethical behavior may counterintuitively lead to unethical behavior. As such, boards and leaders should take great caution in considering how to manage the CSR-CSiR relationship.

Relatedly, our research suggests counterintuitively that leaders who attempt to put forth a moral image are in fact more likely to engage in moral licensing behavior than are those who do not engage in symbolic moral action. Although boards may believe that high moral identifying CEOs can be trusted to behave consistently ethical, our research instead shows that they may be *less* likely to remain consistent. In fact, these leaders may be more in tune with managing others' moral impressions of them and in maintaining a balanced moral scorecard, which may not always result in beneficial outcomes for the firm. This may be advantageous when companies have

previously engaged in wrongdoing, however, it may be harmful when companies have previously engaged in CSR. Thus, boards should remain particularly vigilant of leaders who put forth a moral image.

**Limitations and Future Research**

Our study suggests a number of future research directions. First, future research on CSR and CSiR should further examine leaders' psychological processes that may influence the CSR-CSiR relationship. We drew on moral licensing research to explain why CSR may subsequently lead to CSiR, and in particular suggested that leaders glean moral credits from past CSR which results in them feeling licensed to develop strategies that lead to CSiR. However, like much prior moral licensing research, we did not empirically test this assumption. Although we did not directly test the moral licensing mechanism, we believe that the fact that moral identity moderates this relationship provides supportive evidence of leader moral licensing having taken place by showing that leaders are reactive to past moral action. Moreover, we believe this interaction result lends support to a micro-level approach to CSiR as opposed to more macro-level approaches, such as institutional theory. For instance, if institutional pressures were the primary explanation for the CSR-CSiR relationship, it is unclear why an individual-level attribute (leader moral identity) would be an important moderator of the CSR-CSiR relationship as revealed in the results. Therefore, despite not having directly tested the underlying mechanisms of moral licensing, we believe our interaction results indicate leader moral regulation is an important determinant of CSiR. Still, future research should aim to more directly test the mechanisms (e.g., moral credits) by which past ethical behavior leads to unethical behavior. For instance, future research could empirically test whether leaders' moral credits are indeed bolstered after implementing a CSR strategy. To

assess the relationship between the firm's CSR ratings and leaders' moral credits, a future study could code the manner in which CEOs discuss prior CSR through interviews after the release of the KLD ratings.

Moreover, future research should explore other factors that may influence the moral licensing effect, such as leaders' identification with their organization. Specifically, given that some leaders are promoted from within their firm whereas others are outsiders, their identification level may vary, which in turn, may influence the degree to which they internalize moral credits accrued from their firm's past CSR. Relatedly, longer tenured CEOs, who helped implement prior CSR strategies, may be more likely to engage in moral licensing than shorter tenured CEOs, who did not implement prior CSR strategies. As such, future research should explore how leader identification and tenure, as well as whether a leader was hired from the outside or not, influences the CSR-CSiR relationship.

In the present research we attend to moral licensing as one means to understand the short-term CSR-CSiR relationship. Cumulatively, our study combined with previous research on the CSiR-CSR link (e.g., Chatterji & Toffel, 2010; Kotchen & Moon, 2011) suggests that leaders' socially responsible behaviors may swing on a pendulum; moving from ethical to unethical and back to ethical again. Indeed, Jordan and colleagues (2011) suggest that moral behavior is dynamic rather than stable and acts much like a pendulum that swings between moral cleansing (whereby morally questionable actions give rise to ethical or prosocial behavior; e.g., Carlsmith & Gross, 1969; Sachdeva et al., 2009; Zhong & Liljenquest, 2006) and moral licensing. As such, it would be useful for future research, using a larger dataset of firms, to examine the dynamic nature of CSR over the long-term to better understand the pattern of ethical and unethical behavior that occurs in firms.

In the present paper, we focused on one important psychological characteristic influencing the CSR-CSiR relationship, but future research should explore the moderating effects of other psychological and contextual factors on CSiR. For example, factors such as leader cognitive moral development and moral philosophies are related to ethical leadership (see Kish-Gephart, Harrison & Trevino, 2010 for a review) and may influence how leaders use past moral behavior as a guide to determine subsequent moral behavior. It is also possible that leaders who are more actively engaged in developing and implementing strategies may simultaneously engage in both CSR and CSiR. Thus, leader personality attributes related to assertiveness and conscientiousness may also be important to consider. Finally, future research should explore how contextual factors such as organizational culture influence the CSR-CSiR relationship. Specifically, given that previous research shows paradoxical negative effects of a meritocratic culture on sexism in the workplace (Castilla & Benard, 2010), we may find that organizational cultures intended to increase the ethical standards of the organization may actually lead to subsequent CSiR. Future research studies exploring these psychological and contextual factors are important as they will allow us to better understand how leaders can manage both CSR and CSiR.

Finally, although the CAQ methodology offers great benefits to examining top leaders at a distance, it is not without its limitations. First, because of the qualitative nature of the CAQ, it is possible that the data were biased because of journalists' or coders' biases. Although our use of varied sources to create our packets of information on each CEO as well as our use of multiple coders minimizes the impact of any individual bias, we cannot fully isolate personal prejudgment or bias in our data. Second, our study is restricted in its sample. Given the level of detail required to

complete a CAQ, our sample was limited to CEOs of large, American firms that received extensive coverage in the business press. However, given that leaders have more discretion in smaller firms than they do in larger firms (Miller, Ket de Vries, & Toulouse, 1982), it is likely that this sample serves as a conservative test of our study hypotheses (i.e., results might be even stronger within smaller organizations in which leaders have more control of communication and the decision making process). Finally, because of the CAQ's at a distance nature, our measure of moral identity only allowed us to examine public displays of moral identity (i.e., symbolization) and not the degree to which moral identity is internalized and central to the leader's sense of self. Therefore, future research should examine the moral identity of public leaders using alternative measures that tap into the degree to which morality is central to their self-definition. For example, impromptu interviews as opposed to planned communications from the CEO may be one way to tap into moral identity internalization.

**Conclusion**

Although previous research has examined positive effects of CSR such as how it relates to firm financial performance, we argued that it may also be an antecedent to CSiR. We further argued that it is important to consider how leaders affect CSiR because they guide the strategic decision making process for CSR initiatives. We find that CSR is positively related to CSiR and that the relationship is stronger for high moral identifying rather than low moral identifying leaders. These findings provide a critical step in understanding the underlying processes that influence CSiR.

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**Footnotes**

[1] The CEOs in our sample were in office for the majority of our time period, which was 1996-2002 (i.e., in office for 3.5 years or more). Eleven CEOs (out of the 49 CEOs in our sample) included in our study were in office for fewer than 3.5 years (i.e., nine CEOs were in office for 3 years of the 1996-2002 time period and two CEOs were in office for 2 years of the 1996-2002 time period). These eleven CEOs' tenure occurred in the latter part of our time period (i.e., 2000-2002), and thus during the independent variable's time period (2001-2002) as well as closer to the dependent variable's time period (2003-2004). When we exclude these eleven CEOs from our analyses, we find the same pattern of results.