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DOES REPUTATION MATTER?

Interactions between Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA)

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Dissertação apresentada à Escola de Administração de Empresas de São Paulo, da Fundação Getúlio Vargas, como requisito para obtenção do título de Mestre em Administração de Empresas.

Linha de Pesquisa: Estratégia Empresarial

Orientador: Prof. Dr. Rodrigo Bandeira-de-Mello

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To Helena.

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ABSTRACT

The present work examines the interplay between Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA), when reputation is regarded as the connecting logic, under the Resource-based view. Specifically, it investigates the influence of CSR on lobbying spending decisions. The prediction is that CSR enhances CPA, as it boosts reputational resources, which in turn facilitates political access and lowers the cost of lobbying. Under this perspective, CSR complements CPA through reputational resources, and the firm benefits from this synergy. This relationship is tested in a panel data analysis comprising public traded companies in the US stock markets belonging to different industries, between 2002 and 2014. Results provide evidence of this relationship when the type of lobbying entity is taken into account, sustaining that firms that hold better CSR reputational status do not need to spend in outsourced lobbying, as the firms themselves are assessed as trustful by the political audience when addressing their claims and, thus, will prefer to adopt in-house lobbying. This study can be of special interest for managers, as they can benefit from the discussion on the integration of nonmarket strategies to enlighten their decisions towards gaining competitive advantage. This work can also enrich the body of literature in the nonmarket strategy field, as it develops an integrated and empirical perspective, contributing to the debate among researchers.

Keywords

nonmarket strategies - corporate political activity (CPA) - corporate social responsibility (CSR) - reputation - lobbying - resource-based view

RESUMO

O presente trabalho analisa as interações entre a Responsabilidade Social Corporativa (CSR) e a Atividade Política Corporativa (CPA) quando a reputação é considerada a lógica de conexão, sob a Visão Baseada em Recursos (RBV). Especificamente, investiga a influência da CSR sobre as decisões de investimento em *lobbying*. A expectativa é de que CSR apoie CPA, uma vez que aumenta os recursos reputacionais, os quais, por sua vez, facilitam o acesso político, reduzindo o custo de *lobbying*. Nesta perspectiva, CSR complementa CPA por meio dos recursos reputacionais, e a empresa se beneficia desta sinergia. Essa relação é testada em análise de dados em painel de empresas negociadas nas bolsas de valores norte-americanas de diferentes setores, entre 2002 e 2014. Os resultados fornecem evidência desta relação quando o tipo de entidade de *lobbying* é considerado, sustentando que empresas que têm melhor *status* reputacional não precisam gastar em *lobbying* terceirizado, já que as próprias empresas são consideradas confiáveis pelos políticos ao direcionar suas demandas, e, portanto, dão preferência a *lobbying* interno. Este estudo pode interessar a administradores de empresas, que podem aproveitar a discussão sobre a integração das estratégias não-mercado para iluminar suas decisões em direção a ganharem vantagem competitiva. Este trabalho também pode colaborar com a literatura de estratégias não-mercado, ao desenvolver uma perspectiva integrada e empírica, contribuindo para o debate entre pesquisadores.

Palavras-chave

estratégias não-mercado – atividade política corporativa (CPA) – responsabilidade social corporativa (CSR) – reputação – lobbying – visão baseada em recursos (RBV)

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1. INTRODUCTION

A nonmarket strategy consists of a pattern of actions taken by the firm in the nonmarket environment to improve its performance (Baron, 1995). It is about managing a wider institutional or societal context where the company operates, as opposed to the more narrowly economic context of market competition (Frynas, Child & Tarba, 2017). Nonmarket strategies, thus, can establish, sustain, or enhance a firm's competitive advantage.

Practices related to Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA) can be frequently observed in the nonmarket environment; their interactions, though, are not clear. The Whirlpool Corporation intensely communicates the firm's responsible and sustainable initiatives (https://www.whirlpoolcorp.com/environmental-sustainability/, retrieved on August 13, 2019), and, besides, disclosures all detailed political activity (https://www.whirlpoolcorp.com/us-political-contributions/ retrieved on August 13, 2019). In their Latin American subsidiary, both activities are gathered under the same organizational structure, as sustainability and government relations report to the same vice-presidency (http://whatsrel.com.br/post/manager-government-relations-whirlpool-corporation-sao-paulo-sp/, retrieved on August 13, 2019; https://www.whirlpool.com.br/2012/11/whirlpool-e-reconhecida-como-modelo-em-sustentabilidade/, retrieved on August 13, 2019), suggesting a connection between social and political strategies.

In the literature, researches on nonmarket strategy tend to examine the two building blocks of nonmarket strategy, CSR and CPA, in separated silos (Liedong, Ghobadian, Rajwani, & O'Regan, 2015). Within the recent efforts towards integration, theoretical perspective has been more usual than empirical approach (Frynas et al., 2017). Nonmarket strategies can interact through complementarity, when there are synergies between CPA and CSR; substitution, when there are no synergies between them; or finally, incompatibility or mutually exclusion when CPA and CSR target different objectives (Frynas et al., 2017). Yet, empirical researches have presented contradictory results regarding interactions between CSR strategies and CPA (Frynas et al., 2017; Mellahi, Frynas, Sun, & Siegel, 2016).

In an effort to fill this void, the present study proposes an empirical examination on how CSR and CPA interact when practiced by firms and, in particular, it aims to clarify the relationship between them, through the Resource-based view lens, where reputational resources are analyzed as the connecting logic: does Corporate Social Responsibility enhance Corporate Political Activity? In order to examine this matter, a quantitative approach is suggested.

This study can be of special interest for managers of firms that practice or intend to practice one or both nonmarket strategies, as they could benefit from the discussion on their integration. In this regard, the present project aims to provide useful insights towards a more efficient combination of CSR and CPA, therefore, contributing more effectively to the firm's competitiveness. Also, it can enrich the body of literature in the field and contribute to the debate among researchers.

This work proceeds as follows: first, background theory is presented, contextualizing CPA and CSR in the literature, followed by hypotheses development and empirical strategy. The study then exhibits the results, and, finally, the discussion and conclusion.

2. BACKGROUND THEORY

2.1. Nonmarket strategies

A nonmarket strategy consists of a pattern of actions taken by the firm in the nonmarket environment to improve its performance (Baron, 1995). It is about managing this wider institutional context in which the companies operate, as opposed to the more narrowly economic context of market competition (Frynas et al., 2017).

Baron (1995) distinguishes the market environment of the nonmarket environment. Nonmarket environment relates to the social, political and legal arrangements that structure the companies' interactions outside the markets, and in conjunction with markets, intermediated by the public, stakeholders, government, the media, and public institutions. Market environment, on the other hand, includes interactions between the company and other parties, intermediated by the markets or private agreements.

To influence their nonmarket environments, many firms take advantage of nonmarket strategies: Corporate Political Activity - CPA and Corporate Social Responsibility – CSR (Doh, Lawton, & Rajwani, 2012). CPA refers to efforts made by firms to shape government policy in ways favorable to the firm (Hillman, Keim, & Schuler, 2004) and targets elected officials and politicians (Hillman & Hitt, 1999). CSR is mostly concerned with the social and environmental obligations of firms (Doh *et al.*, 2012; Hillenbrand, Money & Ghobadian, 2013), and it targets the general public and the community. Nonmarket strategies can establish, sustain, or enhance a firm's competitive advantage (Mellahi *et al.,* 2016). Thus, influencing the nonmarket environment contributes to the firm's performance, whether economic or reputational (Liedong *et al*., 2015).

2.1.1. Corporate Political Activity

The CPA perspective has emerged as an important research frame for explaining firm performance in political arenas (Hillman *et al.*, 2004). Since Fainsod (1940)'s seminal work, important progress in understanding CPA has been made and derives from a range of diverse disciplines as strategic management, marketing, economics, sociology, finance and political science (Hillman *et al.*, 2004). The CPA literature views business-government relations from a managerial point of view. It looks at how firms attempt to control their external environment by protecting and advancing their political interests, for instance, by lobbying policy makers, forming coalitions, and making contributions to political campaigns, and has focused on its antecedents, types, procedures, and outcomes (Rasche, 2015).

Getz (1997) defines CPA as "any deliberate firm action intended to influence government policy or process". As a nonmarket strategy, the author follows an instrumental understanding of politics, seeing firms as actors outside of the political domain which aim to influence this system with political strategies such as lobbying and campaign donations in order "to shape government policy in ways favorable to the firm" (Hillman *et al.*, 2004; Schuler, Rehbein & Cramer, 2002).

Lawton, McGuire and Rajwani (2013) identify three conceptual lenses for CPA: resources and capabilities, institutions and the political environment, all of them affecting organizational performance and, hence, helping to understand how CPA relates to competitive advantage. According to them, the Resources and Capabilities lens builds on the RBV, where the concept of organizational capability has emerged as an explanation for the competitive advantage. Under this perspective, scholars have suggested that firm's resources can be integrated into the nonmarket environment, regarding the relations with political authority (politicians or regulators) and focusing on the use of the firm's strategic political resources and capabilities as a way to augment their profitability. Political capabilities is previously described as being mainly technical-economic expertise in lobbying government (technical, political or economic); while political resources are characterized and defined as having organizational resources (in-house office or permanent regulatory person), they also contain relational resources (formal relationships or information relationships with political actors), public image (perception of stakeholders), reputation resources (individual and firm responsibility) and financial resources (political campaign contributions, events, and conferences). (Dahan, 2005a, cited in Lawton *et al.*, 2013, p. 5). Firms may possess these resources to influence the public decision-maker (Dahan, 2005b, cited in Lawton *et al.*, 2013, p. 5).

The second conceptual lens in CPA highlighted by Lawton *et al.* (2013) is the institutional focus, which helps to understand how different political, social and economic pressures affect firms, particularly government relations. A given ecosystem of firms adopts isomorphic strategies in response to common institutional pressures. However, at the national level, institutional pressures can maintain diversity. The Institutional theory also contributes to the level of the firm, as Institutional theory can be linked back to RBV, helping to understand how firms adapt (or not) to alterations and evolution in the non-market environment, or how macro-level shapes CPA (Lawton *et al.*, 2013). It helps to explain the process of adaptation in CPA in the context of globalization and pressures on national institutions to adopt internationally accepted norms and rules.

The third conceptual lens in CPA research is the Political Environment focus, in particular regulation, political risk and the effect that the type of political system has on the certainty of political processes, where scholars study the hard, more quantifiable aspects of institutions (Lawton *et al.*, 2013). This domain can be conceptualized as a constituent of the previous institutional domain, where institutions shape corporate political activity. However, the previous focus on broader concepts of institutions (culture, history, country).

Besides the theoretical lenses, the antecedents of CPA have been also explored by researchers in the field (Hillman *et al.*, 2004; Lux, Crook & Woehr, 2011). Specifically, firm-level antecedents such as size, age, and slack resources are common in the CPA literature, regarded by managers when deciding to participate in political activity, signaling about the firm's ability to become politically engaged. CPA research faces relevant challenges. It has been criticized as encouraging a focus on the economic benefits of political activity that effectively disregards unethical or sociopathic firm behavior (Mantere, Pajunen & Lamberg, 2009). Besides, research is becoming more complex, and scholars are then challenged to understand CPA in more varied institutional settings (Lawton *et al.*, 2013) and to deal with its stigma**.**

2.1.2. Corporate Social Responsibility

The responsibility of the firm has been discussed since the 30s when researches began to discuss the negative effects of market self-regulation (Polanyi, 1944). After Bowen and Johnson (1953)'s seminal work on CSR, encompassing a strong moral and ethical tone, many other authors followed their line of thinking, according to which managers have a moral duty to social issues (Bansal & Song, 2017).

Neo-classic economists led by Friedman (1962) argue that the firm's primary objective is to generate profits, whereas other concerns should be left for governmental institutions. Much of the literature on CSR is based on an economic view, emphasizing that social and environmental responsibilities should only be accepted if there is a strategic reason to do so (Rasche, 2015). Baron (2001) suggests an instrumental notion of CSR, as the author points out that firms should seize any opportunities for strategic CSR just as they seize market opportunities to improve profits.

In the strategy field, CSR has been an important topic, where many researchers have sustained that firms that share value with key stakeholders may achieve superior financial performance (Barnett & Salomon, 2012; Flammer, 2018). Aguinis and Glavas (2012) find that CSR improves a firm's reputation with external stakeholders, increasing financial performance. CSR strategy is considered by some scholars a way to gain competitive advantage, not only through legitimacy but through the understanding that firms which undergo on sustainable activities will be more likely to obtain it (Dögl & Behnam, 2015), as firms that anticipate and address social interests minimize operational or financial constraints that might affect firm performance if nothing is done.

More recently, Lock and Seele (2018) notice a change in nonmarket strategies' understanding of CSR engagement, according to which, when conducting business in the market as well as nonmarket environments, firms should regard moral concerns of stakeholders and respect the social responsibilities.

In the present study, CSR is defined as corporate actions that appear to advance some social good, beyond the interests of the firm (McWilliams & Siegel, 2001), and that allow a firm to enhance organizational performance, regardless of motive (Mellahy *et al.*, 2016), therefore, considering both moral tone and strategic purpose.

CSR is an umbrella concept (Den Hond, Rehbein, de Bakker & Lankveld, 2014), therefore, theoretical lenses are key for its understanding. Stakeholder theory, (Neo) Institutional theory, Legitimacy theory, Resource-based view, Agency theory, and Resource dependence theory are the main related theories in order of relevance in the literature (Frynas & Yamahaki, 2016).

According to the Stakeholder theory, firms are impacted by stakeholder actions and thus must care for their interests and CSR is driven by the organization's relationships with specific external actors (Mellahi *et al.,* 2016). In the Legitimacy theory, firms operate on the basis of a social contract with society and their survival and growth depend on legitimacy, where CSR keeps the congruence between society's and organizational objectives (Frynas & Yamahaki, 2016). The Agency theory considers that managers, as agents, have distinct incentives and objectives from their principals, therefore, managers may engage in CSR under incentives (Mellahi *et al.,* 2016). According to the Resource dependence theory, firms' survival and growth depend on accessing requisite resources from external parties and the dependence on key resources of specific external actors is a CSR assumption (Mellahi *et al.,* 2016). The (Neo) Institutional theory posits that firms' survival and growth depend on its legitimacy within institutional players and the CSR assumption is conformity to institutional context (Mellahi *et al.,* 2016). Finally, the Resource-based view considers that performance differentials among firms are influenced by firm-specific nonmarket resources and capabilities, and, thus, CSR acts as a specialized skill or capability to gain a competitive advantage (Frynas & Yamahaki, 2016).

The RBV couples with the heterogeneity of firms due to their strategic internal resources and capabilities towards sustainable competitive advantage, in contrast to the previous lens in strategic management where firms adapt to the external environment (Frynas & Yamahaki, 2016). According to Barney (1997), sustainable competitive advantage combines resources that are valuable, rare, difficult to imitate and exploited by the firm, which would apply specialized capabilities in CSR, such as the reputation for sustainability leadership (Lourenço, Callen, Branco & Curto, 2014).

Such as in the CPA literature, besides the theoretical lenses, CSR researchers have also studied the antecedents in the field. However, in CSR literature, antecedents refer to macro components (i.e. normative motives, firm mission and values (Aguinis & Glavas, 2012). Firm-level drivers predicting CPA engagement in CPA literature (i.e. firm size and slack resources are analyzed as moderators of CSR-outcomes relationship in CSR literature review.

2.1.3. Nonmarket strategies' interactions

Research interest in nonmarket strategies has existed for several decades (Aguinis & Glavas, 2012; Baron, 1995; Bowen & Johnson, 1953; Fainsod, 1940; Frynas *et al.*, 2017; Hillman *et al.,* 2004). Although there has been a growing interest for an integrated perspective (Mellahi *et al*., 2016), literature has examined the two building blocks of nonmarket strategy, CSR and CPA, separately (Liedong *et al.*, 2015).

In recent years, CSR scholars, embedded in the tradition of critical theory, have studied CSR political aspects, as reviewed by Frynas and Stephens (2015) and Scherer (2018). In those researches, they argue that CSR is "political" in a broad sense. Political CSR considers that political engagement of firms is connected to a wider relationship between firms, governments, and civil society actors, stressing the importance of governance shifts, where firms assume governmental roles and responsibilities in a global context of weak governance, contributing to global regulation and providing public goods (Scherer & Palazzo, 2011).

However, according to nonmarket strategy literature, firms also operate "politically" in a more traditional sense, interacting with governmental decision-makers, through corporate political activity, for instance (Den Hond *et al.*, 2014). Under this perspective, firms engage in political activity for instrumental reasons, developing and implementing political strategies to improve firm performance (Rasche, 2015).

Frynas *et al.* (2017) remind that CPA scholars have also explored some social aspects of political activities; however, they notice that literature has failed to specifically explore the CSR-CPA relationship. According to the authors, the researchers that integrate CSR strategies and CPA have mostly analyzed the possible forms of interaction between them: substitution, incompatibility, and complementarity.

CSR and CPA can interact through substitution when there are no synergies between them; on the contrary, the CSR and CPA policies together may reduce the positive benefits and/or increase negative effects of either activity on a firm's reputation (Den Hond *et al.*, 2014). In such a context, it is worthless to engage in both, such as when managerial political ties may cannibalize the gains of CSR (Liedong, Rajwani & Mellahi, 2017). Den Hond *et al.* (2014) name this type of nonmarket strategy as misalignment, where contradictions between CSR and CPA practices may be negatively assessed by stakeholders, and firms as intentionally misleading them, therefore, considered not trustful. Managers may be consciously unwilling to react to CSR external pressures, for instance, reinforcing CPA instead, in order to maintain the *status quo* (Mellahi et al., 2016). In this case, CPA substitutes and weakens CSR activities.

When CPA and CSR target different objectives, they are incompatible or mutually exclusive (Den Hond *et al.*, 2014), and, in this case, the reputation benefits from CPA and CSR are additive, as the audience assesses them separately and firms will less likely recognize the potential gains of complementarity. Sometimes, CPA and CSR may be seen as incompatible due to internal organizational structures and corporate values (Frynas *et al.*, 2017). The incompatibility or non-alignment (Den Hond *et al.*, 2014) is an unstable situation, as firms have the possibility of aligning CSR and CPA as complementary nonmarket strategies or to be assessed by stakeholders as conscious misalignment.

CSR-CPA complementarity takes place when there are synergies between CPA and CSR due to resources' complementarity: when resources from CPA support CSR, or, also, when resources from CSR support CPA, by facilitating access to politicians, enhancing the efficacy of CPA or reducing the cost of interaction with politicians and regulators (Den Hond *et al.*, 2014).

Synergies may also occur when CSR offsets negative effects of CPA by creating trust between firms and the political audience (Flammer, 2018; Liedong *et al.*, 2015), by lowering the need for firms to rely on financial donations to politicians due to CSR reputation (Den Hond *et al.*, 2014) and by improving human capital resources - expertise, and organizational capital - legitimacy (Frynas *et al.*, 2017; Hadani & Coombes, 2015; McDonnell & Werner, 2016).

CSR can be used as a legitimization tool to offset negative organizational practices and public image (Alakent & Ozer, 2014) or to open access to government-controlled benefits (Gao & Hafsi, 2017). Besides, CSR may enable firms to obtain better stakeholders' responses and political resources (Wang & Qian, 2011), strengthen the relationship between the firm and the polity (Rehbein & Schuler, 2015) and help building political networks, possibly generating government subsidies (Lin, Tan, Zhao, & Karim, 2015). When the firm recognizes the existence of such potential complementarity, it may benefit from it and enhance reputation by aligning the nonmarket strategies, which amplifies positive reputation effects from CSR and CPA, and mitigates negative reputation impacts from CSR and CPA so that their CSR and CPA are both more effective (Den Hond *et al.*, 2014). However, these potential synergies are often disregarded by firms, who miss great strategic opportunities (Den Hond *et al.*, 2014). In fact, combining CSR and CPA may yield first-mover advantages (Mellahi et al., 2016) for firms in their pursuit of competitive advantage (Sun, Mellahi, & Wright, 2012).

Therefore, synergies between CSR and CPA, creating complementary firm-level resources and enabling a firm to maximize the effectiveness of both nonmarket strategies and also the recognition of the potential complementarity, are key elements of this type of nonmarket strategies' interaction. The great majority of authors have argued that CSR and CPA are complementary and should be aligned (Frynas *et al.*, 2017). However, the inconclusive results of the different forms of nonmarket strategies' interaction require further empirical investigation.

This study sustains the complementarity of nonmarket strategies, specifically under the perspective that the complementarity takes place when there are exploited synergies between them when resources from CSR enhance CPA.

Previous works that incorporate the complementarity view of nonmarket strategies interactions present different logics connecting CSR and CPA. They also investigate the phenomenon through diverse theoretical lenses. Table 1 of the Appendix exhibits the main researches in the management field, identified after literature review at the Web of Science platform searching for the following keywords: CPA; corporate political activity, CSR and Corporate Social Responsibility; Nonmarket Strateg*. The search resulted in 68 papers, firstly filtered by their abstracts. Additional papers were included in the analysis after a snow-balling process, and the final sample resulted in the main works sustaining the complementarity of the nonmarket strategies, focusing on their relevance to the present discussion and also to methods (empirical approach).

Most of the articles are empirical (9 out of 14), within which, 5 test performance in the dependent variable (i.e. firm CPA or financial performance), ss can be seen, in Table 1.

Regarding the theoretical lenses, most of the articles get support in one or more theories (12 papers out of 14), although some of them do not mention it specifically (3). The most common lenses are Stakeholder theory (2) and Resource-based view (2), while Institutional theory is explored in one article, and, other theories, in two articles. Multiple-theory approach accounts for the majority (5 out of 12), within which, Stakeholder theory, Shareholder theory, Resource-dependence-theory, and Institutional theory are explored in 2 articles, while Resource-based view and one other in one article each. Overall, a relative balance can be observed between multiple and one-only theory, and also among the mentioned perspectives.

Focusing on the connecting logic of complementarity between CSR and CPA, *reputation* is the most common connecting logic (5 articles out of 12), followed by *legitimacy* (3) then *trust* and multiple logics (2 each). Within these latest, *reputation* and *legitimacy* prevail over *trust* (2 each over 1).

This study runs an empirical approach, under the Resource-based view lens, and considers reputation as the connecting logic of complementarity between CSR and CPA, as will be presented in the next section. The Resource-based view is a common lens both in CSR and CPA research, as mentioned in the previous section, and is also one of the main theories in the Strategy field. Under this perspective, reputation is explored as a resource.

2.1.4. The Resource-based view and nonmarket strategies

As previously remarked, the Resource-based view (RBV) is a common theoretical lens identified both in CSR and CPA literature. Mellahi *et al.* (2016) not only observe the popularity of RBV in those fields but also find empirical evidence providing strong support for RBV concerning the positive link between nonmarket strategies and organizational outcomes, reinforcing the suggestion of their interaction.

The RBV explains how the different resources, and its diverse arrangements, affect organizational performance (Lee & Whitford, 2012). Resources are assets used by firms in their operations to transform inputs into outputs; they can be whether tangible or intangible; whereas capabilities are actions through which resources are used and adopted by firms in order to develop their strategies (Branco & Rodrigues, 2006). The RBV theory was notably developed by Barney (1991) in his seminal work. According to him, organizations that possess resources and capabilities that are valuable, rare, difficult to imitate or substitute can achieve a sustainable competitive advantage, therefore, leading to better performance. Barney (1995) later develops the VRIO framework (valuable, rare, costly to imitate, organized to capture value) to help the analysis and management of the firm's internal resources towards their strategic goals (Cantrell, Kyriazis, & Noble, 2015).

When it comes to a nonmarket strategy perspective, the RBV helps to understand how the complementarity of nonmarket strategies enhances the firm's performance by developing and exploiting different types of resources. The RBV enlightens the understanding of the firm's behavior: how it proactively develops and deploys nonmarket resources and capabilities to shape sociopolitical environments to the firm's advantages (Mellahi *et al.*, 2016). In this sense, nonmarket and market firm-specific resources and capabilities can be combined in integrative configurations, managing both market and nonmarket environments, and supporting the firm's overall strategy (Doh *et al.*, 2012). Under the RBV perspective, the complementarity of nonmarket strategies takes place when CPA resources or capabilities strengthen CSR activities, or when resources or capabilities created through CSR support CPA (Mellahi *et al.*, 2016). In this regard, corporate reputation can be seen as a resource affecting both CSR and CPA.

2.1.5. Corporate reputation

Corporate reputation is a concept that has been vastly studied in the literature in the past years, throughout different disciplines, exploring diverse definitions and approaches. Scholars working from an economic perspective usually define reputation as a perception of a particular stakeholder group (Rindova, Williamson, Petkova, & Sever, 2005), such as customers (Agarwal, Osiyevskyy & Feldman, 2015), whereas others approaching a sociological perspective tend to define reputation as an overall recognition, from multiple stakeholders (Benlemlih, Shaukat, Qiu, & Trojanowski, 2018; Bergh, Ketchen Jr, Boyd, & Bergh, 2010; Cantrell *et al.*, 2015). Despite their differences, both perspectives agree that reputation refers to social cognition, as perception and belief, and that it resides in the mind of external observers (Rindova, Williamson, & Petkova, 2010).

Corporate reputation is "*a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals*" (Fombrun, 1996). This definition follows the sociological approach to Corporate Reputation under RBV perspective, commonly adopted by many scholars (Agarwal *et al.*, 2015; De Castro, López, & Sáez, 2006; Den Hond *et al.*, 2014; Gallego-Alvarez, Prado-Lorenzo, Rodríguez-Domínguez, & García-Sánchez, 2010; Raithel & Schwaiger, 2015; Roberts & Dowling, 2002). Unfolding the concept, the past actions, together with investments and attributes, constitute the antecedents of the corporate reputation (Rindova *et al.*, 2010). As corporate reputation is rooted in the own organization, related to a whole complexity of actions in historically different contexts, it is unique (De Castro *et al.*, 2006), and may change over time; thus, the consistency of actions is important to corporate reputation (Den Hond *et al.*, 2014). Regarding the overall assessment aspect in this definition, corporate reputation, hence, is usually presented and measured as the aggregation of evaluations of different stakeholders (Agarwal *et al.*, 2015; Den Hond *et al.*, 2014), where the collectiveness of stakeholders stands out as an important attribute.

Also, as an assessment construct (Agarwal *et al.*, 2015; Rindova *et al.*, 2010), communication is a key element to Corporate Reputation (Den Hond *et al.*, 2014), together with the above-mentioned consistency of actions. Visible and symbolic CSR activities that can trigger positive reputation with key stakeholders, as affiliation with the United Nation's Global Compact, donations to charities and voluntary CSR reporting, signal the firm's goodwill (Vishwanathan, van Oosterhout, Heugens, Duran & Van Essen, 2019), and external constituencies may identify these efforts (Roberts & Dowling, 2002). In fact, the firm needs to work to be viewed positively and to remain relevant in the mind of stakeholders (Boyd, Bergh & Ketchen Jr, 2010).

Finally, the reference to evaluation of the "future prospects" in the definition is crucial, as it may determine choices from key stakeholders. They may consider the firm suitable or not as an exchange partner, depending on its reputation, which provides elements to predict future behavior (Den Hond *et al.*, 2014). Reputation determines if stakeholders are confident about the firm's capabilities and reliability as a top competitor in the market (Raithel & Schwaiger, 2015), which reveals the aspect of competitive advantage over "leading rivals". Corporate reputation is, then, a general organizational attribute that reflects the external stakeholders' assessment (Roberts & Dowling, 2002) regarding the organization's historical behavior and associations, and capable of influencing the decisions of key organizational stakeholders (Agarwal *et al.*, 2015).

In this regard, a superior corporate reputation can be considered a strategic factor for firms (Raithel & Schwaiger, 2015), as the overall collective assessment create reputation that stratifies industries, where firms with higher reputation status have potential competitive advantages (Fombrun & Shanley, 1990). As a matter of fact, showing the effects of reputation on the firms' performance has been the focus of literature (Rindova *et al.*, 2010). Different theoretical approaches highlight the growing importance of corporate reputation as a strategic factor (De Castro *et al.*, 2006), as it can lead to premium pricing or consumer loyalty, increasing revenue (McWilliams & Siegel, 2011) and allowing firms to achieve persistent profitability (Roberts & Dowling, 2002).

In searching for sources of unique and hardly imitable competitive advantage, researchers and practitioners have focused on examining corporate reputation as an intangible asset (Agarwal *et al.*, 2015; Boyd *et al.*, 2010; Cantrell *et al.*, 2015; Lee & Whitford, 2012; Raithel & Schwaiger, 2015), which makes replication by rival firms considerably more difficult (Roberts & Dowling, 2002). Rindova *et al.* (2010), for instance, observes two dimensions in reputation that determine its value as an intangible asset: quality (related to the content) and prominence (related to accumulation). Boyd *et al.* (2010) state that building corporate reputation requires managers to carefully nurture interdependencies and complex relationships. Barney (1991) points out that reputation is socially complex and has a causally ambiguous nature. Besides, the current reputation of the firm is built or accumulated in a historical context and in distinctive circumstances that can be hardly repeated (De Castro *et al.*, 2006): the establishment of a good reputation takes significant time and depends on a firm making consistent investments (Roberts & Dowling, 2002), and cannot be bought by additive and independent investments (Boyd *et al.*, 2010). It is clear, thus, that a good reputation has characteristics that makes it difficult to imitate by competing firms (Roberts & Dowling, 2002) and provide potential sustainable competitive advantage (Bergh *et al.*, 2010).

Therefore, reputation is an essential intangible resource, valuable, rare and difficult to imitate by competitors (Gallego-Alvarez *et al.,* 2010), capable to enhance the long-term shareholder value (Raithel & Schwaiger, 2015), contributing to the creation of competitive advantage, which fulfills the building blocks of the RBV's perspective of performance variances among competitors (Boyd *et al.*, 2010).

3. HYPOTHESIS DEVELOPMENT

CSR, CPA and reputation

The relationship between CSR and reputation has been widely explored in the literature. Gallego-Alvarez *et al.* (2010) identify three kinds of related studies: those analyzing the influence of reputation on financial performance, those dealing with the process of generating reputation through CSR, and those that discuss the paradigm. Within those CSR-reputation studies dealing with the impact on performance, many sustain a positive relationship (Den Hond *et al*., 2014; Fombrun, 1996; Vishwanathan *et al.*, 2019).

A great amount of recent studies has investigated CSR-related antecedents of corporate reputation (Agarwal *et al.*, 2015). As previously remarked by Rindova *et al.* (2010), the firm's past actions, together with investments and attributes, constitute the antecedents of the corporate reputation. The authors emphasize that the investments or resources flow that makes the firm accumulate reputational assets are distinct from the reputation itself, which is central to the RBV perspective on reputation. Regarding the investments made, more visible actions and practices, such as CSR activities, may trigger the perceptions about the firm and, therefore, impact its reputation (Agarwal *et al.*, 2015). In fact, perceptions of nonfinancial aspects, as social and environmental responsibility, significantly contribute to the firm's reputation and have a more relevant impact on the future stakeholder behavior than reputation driven by previous financial performance (Raithel & Schwaiger, 2015).

CSR can be regarded as an important instrument for building and maintaining corporate reputation (Gallego-Alvarez *et al.,* 2010) and it has become imperative for firms to ensure the desired identification and reputation among stakeholders (Cantrell *et al.*, 2015). CSR may act as an insurance policy, as CSR activities lead to positive assessment from stakeholders, who then balance their negative judgments and sanctions toward firms because of their benevolence and previous reputation (Luo, Kaul & Seo, 2018; Sun *et al.*, 2012). Among customers, CSR attributes may be important elements of product differentiation and reputation building (Gallego-Alvarez *et al.,* 2010) as the quality is uncertain, so the consumer must rely heavily on the firm's reputation, selecting those engaged in CSR (McWilliams & Siegel, 2011). Among employees, CSR practices might indicate values of the firm, positively influencing perceptions on working conditions and relations in the workplace (Vishwanathan *et al.*, 2019), therefore attracting the best employees and motivating current employees (Gallego-Alvarez *et al.,* 2010). Also, bankers are sensitive to the risk associated with the firm perceived as “irresponsible” (Fombrun & Shanley, 1990). Hence, CSR can lower the cost of financial capital, through reputation enhancement (McWilliams & Siegel, 2011).

Therefore, CSR positively impacts reputation, as stakeholders as a whole have good perceptions of firms engaged in CSR practices and prefer to do business, to associate and to transact with them than with other competitors that do not engage. In fact, firms engaged in CSR signal to the general public that they are trustworthy and reliable, which favorably reinforces the firms’ reputation (Den Hond *et al*., 2014).

Differently from CSR, the impact of CPA on firm’s reputation has been less explored in the literature, and although research on public opinion about this matter is rare (Den Hond *et al*., 2014), it seems that CPA is negatively interpreted among the public (Liedong *et al*., 2015). Most CPA researchers and political scientists consider the political activity a legitimate and relevant role played by firms and see it as a common and unproblematic activity in many countries (Den Hond *et al*., 2014). Reputation is a political resource, based on the firm’s issue expertise, behavior, and correctness (i.e. ethics), where the firm is seen by other actors, including the political audience (Caldeira Filho, 2016). However, in many cases, it seems that CPA may negatively affect the reputation of the firm (Den Hond *et al*., 2014; Liedong *et al*., 2015). There have been increasing concerns about firms going beyond their legitimate participation in democratic decision making (Barley, 2010; Den Hond *et al*., 2014). Besides, CPA may look self-interested and opportunistic, and rarely perceived as benevolent (Liedong *et al*., 2015). Also, some recent studies have analyzed the dark side of political activity (Sun *et al*., 2012). CPA may look unethical when corruption in business-government relations is perceived (Liedong *et al*., 2015). The lack of transparency about CPA and the collective or outsourced lobbying, which makes the link to the firm quite obscure to observe, contribute to the negative perception of CPA (Den Hond *et al*., 2014).

Therefore, although some argue that CPA is legitimate and common, it also may cross the line: firms may not be fully trusted due to CPA and might be assessed by the public as opportunistic, unethical and not trustful, which harms the corporate reputation. In this situation, CPA can negatively affect the firm’s performance and value (Agarwal *et al.*, 2015; Liedong *et al*., 2015; Sun *et al.*, 2012).

Reputational resource as the connecting logic of CSR-CPA complementarity: political access and cost of lobbying

Although the literature usually analyses CSR and CPA separately as previously mentioned, then failing to regard the reputational resource complementarity between them (Den Hond *et al*., 2014), these two nonmarket strategies, when aligned, produce strong synergies (Liedong *et al*., 2017), amplifying the positive reputation effects from CSR and CPA, and offsetting the negative ones (Den Hond *et al*., 2014). In fact, both CSR and CPA, separately, affect the firms' reputation, as their practices influence how stakeholders will assess them. CSR is mainly perceived to be benevolent, whereas CPA is not (Liedong *et al*., 2015). Besides, under the RBV lens, CSR is rarely perceived as having policy skills and ability, therefore, it is not able to address and influence political outcomes (Liedong *et al*., 2015); then, CSR and CPA would complement each other by CSR benevolence and CPA political skills. This CSR-CPA interaction creates firm-level resources that are unique and difficult to imitate (Rehbein & Schuler, 2015); when firms recognize the synergy of resources complementarities and decide to synchronize CSR and CPA, they may benefit from this synergy, as CSR and CPA become both more effective (Den Hond *et al*., 2014), leading to better outcomes.

Specifically focusing on reputation, the complementarity takes place by CSR enhancing reputational resources, which helps CPA effectiveness, providing an important synergy to the firm. Reputational resources developed through CSR activities support political activities in different ways, such as facilitating access to political stakeholders (Den Hond *et al.,* 2014; Frynas *et al*., 2017; Liedong *et al*., 2015). Political access is a valuable resource that can boost the firm's competitive advantage, by placing the firm in a superior position compared to other firms (Rehbein & Schuler, 2015). A positive reputation enables firms to get access to political resources that are valuable to their development (Wang & Qian, 2011), and it also helps stigmatized sectors (such as tobacco) to open the dialogue with polity (Sun *et al*., 2012). Also, politicians and regulators depend on the reliance of their constituents (Jia, 2018), therefore, they are cautious to associate with firms, based on their reputation and how they are assessed by the public (McDonnell & Werner, 2016). To make matters worse, as previously stated, CPA may not be well perceived by the public, thus, due to the sensitiveness about this issue, politicians may be extra careful when addressing corporate political claims. The political audience must perceive firms as honest in order to accept their claims in the policy-making process, as they must assume in advance the impact of the policy demanded (Liedong *et al*., 2015). In this context, the CSR reputation plays a crucial role. Likewise, threats to a firm's reputation may reduce politicians' willingness to openly associate with it (McDonnell & Werner, 2016). Political audience will also be careful when the positions of CPA and the public conflict (Liedong *et al*., 2015) and will avoid being associated with claims perceived as opportunistic and that benefit only a few (Rehbein & Schuler, 2015). Therefore, firms can use their CSR reputational resource to gain access to political and legislative decision making (Den Hond *et al*., 2014).

By facilitating access to politicians and regulators, firms are also able to reduce the cost of interacting with them and the need for financial instruments to gain access and attention of polity due to CSR reputation (Den Hond *et al*., 2014). Due to reputational resource complementarity, firms reach synergies and, thus, can lower the cost of demonstrating compliance to regulation (Rehbein & Schuler, 2015) and the donation to politicians (Den Hond *et al*., 2014). In the same way, as CSR reputation facilitates political access enhancing the firm's reliability, firms can also reduce their lobbying spending when addressing their claims. CSR reputation, then, can influence the lobbying spending decisions.

In other words, CSR can enhance CPA as a specialized reputation resource, helping to influence the public decision-maker. As a result, the firm can lower the lobbying expenditure, as it benefits from the synergy of both nonmarket strategies that coexist:

H1: The more socially responsible the firm is, the less it will spend in lobbying

The choice of the lobbying entity: outsourced or in-house?

Concerns regarding the choice of the lobbying source, whether in-house or outsourced, should be taken into consideration when the firm decides to influence the policy-decision process, as the credibility of the lobbying entity impacts the effectiveness of the political activity (Hillman & Wan, 2005). Firms engage in Corporate Political Activity to shape government policies favorably to its businesses, then, to convince the political audience is crucial to obtain an advantageous scenario.

Firms choose internal staff when they need knowledge about the firm and also when the culture of the industry is too expensive to communicate to an external lobbyist, but they will prefer to outsource expertise when topics are specific. In fact, firms can choose to have an internal and dedicated staff or to hire the services of specialized external lobbying, or to do both. Espinosa (2016) notes that the firm should balance the costs involved in this choice, pointing out that on the one hand, in-house lobbyists have a better knowledge of the industry and the specifics of the firm, and incur in the cost of acquiring skills; whereas the external lobbyists are experts in a diverse range of topics that internal staff may not be, and incur in the cost of communicating the culture or the internal practices of its industry.

Beyond this reflection, from the perspective of corporate reputation, firms that have a better reputation will choose in-house lobbying, when deciding the lobbying source. As previously developed, reputation plays a central role in building stakeholders' perceptions of the firms. When it comes to the political arena, a positive reputation facilitates access to policymakers. In this regard, the reputation of the lobbying entity interferes with how politicians and legislators assess the information taken in lobbying (Jia, 2018).

Besides, stigmatized firms will prefer to outsource lobbyists, as it would require less effort than to persuade reluctant politicians directly (Bandeira-de-Mello, Mauerberg Jr., Jourdan, 2018). As mentioned before, politicians depend on the reliance of their constituents. In their aim to be reelected, they avoid being associated with stigmatized firms (McDonnell & Werner, 2016), as stigmatized firms will be negatively assessed by polity; thus, in this situation, an in-house lobbying professional will not benefit from reputational resources that could facilitate the political access.

On the other hand, firms with a better social reputation do not need to hire outsourced lobbying, as CSR reputation facilitates their access to the political audience. They will benefit from the synergies from reputational resource complementarity and use in-house staff when addressing their claims. Hence, they will be able to lower their spending with external professionals:

H2: The more socially responsible the firm is, the less it will spend in external lobbying

4. EMPIRICAL STRATEGY

4.1. Data and measures

4.1.1. Data source and sample

The lobbying data was obtained from the Center for Responsive Politics (OpenSecrets.org) and the information regarding CSR from the Thomson Reuters database. Accounting and firm-level information were collected from Standard & Poor's Compustat. The Center for Responsive Politics is a commonly used data source (Alakent & Ozer, 2014; Bandeira-de-Mello et al., 2018; Chen, Parsley, & Yang, 2015), as well as Thomson Reuters database for CSR measures (Cheng, Ioannou & Serafeim, 2014; Chopra & Wu, 2016; Kölbel & Busch, 2019) and Compustat for financial data (Flammer, 2018; Hadani & Combes, 2015; Luo *et al.*, 2018).

The sample comprises public traded companies in the US stock markets within 2002 and 2014, belonging to 11 different industries. All data are pooled at the parent company level and treated as specified below. CPA and CSR data are merged by the ISIN Code (International Securities Identification Number) which uniquely identifies a specific securities issue in different databases. The final sample summed up 2682 observations for Model 1, estimated to test Hypothesis 1 (2394 when adding control variables) and 2413 for Model 2, estimated to test Hypothesis 2 (2179 with control variables), which will be further explained.

4.1.2. Dependent variable

The dependent variable refers to Corporate Political Activity. It aims to influence governmental policy in favor of the company's operations (Getz, 1997). Lobbying is the primary influencing tool in corporate political activity (Lux *et al.*, 2011), and as so, has been explored by researches in the field as an appropriate proxy. In this study, lobbying spending in dollar amount, then, embodies the dependent variable in Model 1, obtained from the Center for Responsive Politics (OpenSecrets.org). The dependent variable for Model 2 specifies the lobbying entity source, calculated as the percentage of outsourced lobbying spending over total lobbying spending.

Besides, despite the growth of research on emerging markets and other developed countries, the consolidated practice of CPA in the US is what makes it the most targeted market to be studied (Lawton *et al.*, 2013).

The lobbying data are extracted from the Center for Responsive Politics (OpenSecrets.org), gathering information disclosed by the Lobbying Disclosure Act of 1995 (LDA), which regulates the registration of lobbyists, lobbying firms, and clients. Data include information such as lobbying spending amounts, lobbying source entity (in-house or external) and others. All data are pooled at the parent company level, as some forms in LDA data refer to American subsidiaries' requests while others to the parent company's lobbying requests.

Some data where the parent company cannot be identified are disregarded. The same applies to those parent companies whose ISIN Codes were not found for merging purposes. All lobbying spending is considered per year and per firm, as in some cases, there is more than one lobbying entity reporting request for the same company. In those cases, more than one entity was hired.

4.1.3. Independent variable

Corporate Social Responsibility is the independent variable. CSR data are obtained from the Thomson Reuters database, which contains data since 2002. The Thomson Reuters ESG scores have been widely used in the literature (Guney, Hernandez-Perdomo & Rocco, 2019) and extensively exploited for investment purposes by professionals - including those from major investment houses - and, therefore, have been well verified in the capital markets (Cheng *et al.*, 2014).

Thomson Reuters ESG Scores are considered reliable due to its frequent updates from diverse sources and news coverage (Aouadi & Marsat, 2018). They provide objective, relevant, auditable, and systematic ESG information (Ioannou & Serafeim, 2012), comparable (Kölbel & Busch, 2019), with transparent rating methodology (Semenova & Hassel, 2015). The scores also reflect if the firm is in line with its stakeholder's expectations (Kölbel & Busch, 2019).

Therefore, within Thomson Reuters ESG Scores, the CSR Strategy Score is the most adequate measurement for CSR for this study, as it represents the company's practices to communicate that it integrates the economic, social and environmental dimensions into its day-to-day decision-making processes (Thomson Reuters, 2019).

The CSR Strategy Score contains 11 different measures: CSR Sustainability Committee, Integrated Strategy in the MD&A (Management Discussion and Analysis), Global Compact Signatory, Stakeholder Engagement, CSR Sustainability Reporting, GRI Reporting Guidelines, CSR Sustainability Report Global Activities, CSR Sustainability External Audit, CSR

Sustainability External Auditor Name, ESG Reporting Scope and ESG Period Last Update Date. It is calculated according to a percentile rank methodology, ranging from 0 to 1. Qualitative metrics are Boolean questions and the values are Yes, No or NA, and data is converted to numeric values for the percentile score calculation (Thomson Reuters, 2019).

CSR Strategy Score considers public traded companies in the US stock exchange markets. All data are pooled at the parent company level. In this sense, repeated data (parent company) are eliminated. Limited liability companies, private companies that may have been previously listed and those whose parent companies are governmental entities (i.e. China and Puerto Rico) are disregarded in the treated sample. Missing ISIN Code companies and not identified parents are also excluded.

4.1.4. Control variables

In order to cope with potential cofounds, a parsimonious set of control variables is considered. As previously mentioned, some drivers identified in CPA literature are placed as moderators of CSR-outcomes relationships in CSR literature review. They are controlled for endogeneity management purposes.

Some common variables in both CPA and CSR research are controlled in the model: firm-level characteristics such as size measured by total assets or EBITDA (Bandeira-de-Mello *et al.*, 2018). The larger the firm, the higher is its visibility and then its commitment to CSR (Flammer, 2018). Also, together with the size, firms with slack resources (proxied in this study by Cash Holdings) will also be active in CPA because they can afford to do so (Hillman *et al.*, 2004).

Besides, other control variables are considered: ROA (return on assets) to control for profitability and cash holdings and leverage to control for financial decisions (Flammer, 2018). Data on these control variables are obtained from Standard & Poor's Capital IQ – Compustat database.

All variables used to test the hypotheses are detailed in Table 2 below:

Table 2: Variables

Variable	Measure	Type	Description	Source
CPA	Lobbying spending	Dependent	Lobbying spending is the company's lobbying request in dollar amount reported each semester by every registered entity, according to the Lobbying Disclosure Act of 1995 (LDA). Data have been gathered per year and per parent company.	Center for Responsive Politics (OpenSecrets.org)
CPA	% outsourced lobbying spending	Dependent	% of outsourced lobbying spending according to type of registered entity reported, over total lobbying spending.	Center for Responsive Politics (OpenSecrets.org)
CSR	CSR Strategy Score	Independent	The CSR Strategy Score measures the company's practices to communicate that it integrates the economic, social and environmental dimensions into its day-to-day decision-making processes. It contains 11 measures based on company-reported information and is calculated according to a percentile rank methodology, ranging from 0 to 1.	Thomson Reuters
Size	Total Assets	Control	Size is the natural logarithm of the book value of total assets	Standard & Poor's Capital IQ – Compustat
Profitability	ROA (return on assets)	Control	ROA is the ratio of operating income before depreciation to the book value of total assets	Standard & Poor's Capital IQ – Compustat
Slack Resources	Cash holdings	Control	Cash holdings is the ratio of cash and short-term investments to the book value of total assets	Standard & Poor's Capital IQ – Compustat
Slack Resources	Leverage	Control	Leverage is the ratio of debt (long-term debt plus current liabilities) to the book value of total assets	Standard & Poor's Capital IQ – Compustat

4.2. Summary statistics and correlation among variables

Table 3 presents the descriptive statistics for the dependent, independent and control variables, showing the number of observations, mean, standard deviation, minimum and maximum:

Table 3: Summary statistics

VARIABLES	(1) N	(2) mean	(3) sd	(4) min	(5) max
CSR Strategy Score	7,757	0.4142	0.1410	0.06591	0.9562
Lobbying Spending	9,490	1.347e+06	2.882e+06	0	4.910e+07
% Outsourced Lobbying Spending	7,939	0.659	0.387	0	1
Total assets	69,534	6,005	64,296	-0.0132	3.270e+06
ROA	62,844	-4,454	404,836	-5.297e+07	16,989
Cash holdings	66,975	286.2	3,567	-121.2	331,285
Leverage	41,975	499.0	33,735	-573.4	3.845e+06

Firms in the sample score on average 41.42% on CSR Strategy (14.10% of standard deviation). Due to the asymmetric pattern of lobbying spending variable, the natural logarithm is adopted in the model development, further presented. Firms spend on average 65.9% in outsourced lobbying (0.387 of standard deviation).

Below, the correlation matrix is presented in Table 4, indicating the correlation between variables:

Table 4: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) Lobbying Spending	1.000					
(2) CSR Strategy Score	0.044**	1.000				
(3) Total Assets	0.335***	-0.009	1.000			
(4) ROA	0.029**	0.020*	0.001	1.000		
(5) Cash Holdings	0.234***	-0.007	0.632***	0.001	1.000	
(6) Leverage	0.001	-0.033***	-0.001	-0.447***	-0.001	1.000

*** shows significance at the .01 level
** shows significance at the .05 level
* shows significance at the .1 level

4.3. Method

In order to examine whether CSR complements CPA (lobbying) and also if it lowers the need of external lobbying of a firm, a panel method is adopted to control for omitted variable bias, estimating OLS fixed-effect regressions, controlling for year and industry fixed effects, besides controlling for the above-mentioned variables. The inclusion of industry fixed effects accounts for any time-invariant industry characteristics that may affect both CSR and CPA variables, whereas the inclusion of year fixed effects accounts for economy-wide factors that could affect both variables (Flammer, 2018).

For evaluating the first hypothesis, which predicts that the effect of CSR communicated practices on lobbying spending is negative, the following equation is estimated:

<u>Model 1</u>:

$$CPA_{i,t} = \beta_0 + \beta_1 . CSR_{i,t} + \delta_t + \alpha_j + \mathrm{X}_{i,t} + \varepsilon$$

The subscripts i and t indicate firm and year, respectively. The dependent variable is the company's lobbying spending (ln); the independent variable is the CSR Strategy Score. The coefficients δ_t and α_j indicate, respectively, the use of time and industry-level fixed effects. The vector $X_{i,t}$ represents the above mentioned observable variables that are used as controls.

According to the first hypothesis, it is expected β_1 (the coefficient of interest) to be negative, meaning that the increase in CSR communicated practices lowers the company's lobbying spending.

Besides, for evaluating the second hypothesis, which predicts that the effect of CSR communicated practices on external lobbying spending is negative, the following equation is estimated, where the dependent variable is the external lobbying spending and the independent variable is the CSR Strategy Score:

Model 2:

$$E\_CPA_{i,t} = \beta_0 + \beta_1 . CSR_{i,t} + \delta_t + \alpha_j + X_{i,t} + \varepsilon$$

According to the second hypothesis, β_1 (the coefficient of interest) is expected to be negative, meaning that the increase in CSR communicated practices lowers the company's external lobbying spending.

5. RESULTS

To test the hypotheses, ordinary least square regression analyses are run. Table 5 shows the results of the hypotheses tests for Equations 1 and 2.

As can be seen, contrary to expectations, in Model 1 (H1), the coefficient for CSR Strategy Score is positive and statistically significant (β = 0.0171, se = 0.00222). The point estimate of 0.0171 implies that an increase in the CSR Strategy Score by one index point is associated with a 0.0171 increase in the dollar amount of total lobbying spending. Therefore, these results do not lend support to Hypothesis 1.

Model 1 is run with and without controls, as shown in Table 5, providing consistent results in both cases. When taking a look at the control variables, Total Assets and Cash Holdings have a significant and positive correlation with the dependent variable - lobbying spending. This goes in line with Hillman et al. (2004)'s review, where firms with high levels of slack resources and larger sizes will be active in CPA because they can afford to do so. It also applies to CSR,

Table 5: Results of OLS regression analysis on lobbying

	Model 1		**Model 2**	
	w/o controls	w controls	w/o controls	w controls
VARIABLES				
CSR Strategy Score	0.0181***	0.0171***	-0.00516***	-0.00473***
	(0.00224)	(0.00222)	(0.000518)	(0.000529)
Total assets		4.18e-06***		-5.35e-07***
		(3.47e-07)		(8.05e-08)
ROA		0.00566		0.000368
		(0.00706)		(0.00168)
Cash holdings		2.25e-05***		-3.94e-06***
		(5.52e-06)		(1.28e-06)
Leverage		-0.00259**		0.000136
		(0.00116)		(0.000283)
Constat	10.94***	11.18***	0.506***	0.448**
	(0.598)	(0.574)	(0.178)	(0.176)
Observations	2,589	2,314	2,413	2,179
R-squared	0.228	0.315	0.215	0.249
Year FE	yes	yes	yes	yes
Industry FE	yes	yes	yes	yes

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

as larger firms are more visible (Flammer, 2018) and dispose of available slack resources to commit more in CSR activities (Reimann, Rauer & Kaufmann, 2015).

One possible explanation of these results is that firms that are more socially responsible hold better reputation *status*, and therefore, are in a better position to postulate political claims as a whole when the type of lobbying entity is not specified. In this regard, they will exploit this superior reputational status to invest more resources to manage the political environment favorably to their interests, as they have conquered political access. Likewise, firms with lower CSR practices, therefore with inferior reputational status, will spend less in lobbying as it would be worthless and would require too much effort to influence the political arena.

Richter (2011) sustains that firms need to pull both CSR and CPA jointly to enhance performance, as he finds in his study that firms with higher CSR ratings and more intensive lobbying activities achieve superior firm value.

On the other hand, in Model 2 (H2), the coefficient for CSR Strategy Score is negative and statistically significant (**β** = -0.00473**, se** = 0.000529). The point estimate of -0.00473 implies that an increase in the CSR Strategy Score by one point is associated with an 0.00473 decrease in the % of outsourced lobbying spending (proportion of outsourced lobbying spending over total lobbying spending). Thus, these findings provide support for Hypothesis 2, confirming a negative association between CSR and outsourced lobbying spending, and is in line with the argument that firms that practice and communicate CSR activities have a better reputation with stakeholders and do not need to hire external lobbying entities to address their political claims.

Model 2 is also run with and without controls, as shown in Table 5, showing consistent results as well. Some additional insights can be provided when analyzing the control variables. According to Model 2, some control variables have a significant association with the dependent variable (firm size and cash holdings), whereas others do not (profitability and leverage). Specifically, the coefficient of size (measured by Total Assets) is significant and negatively related to the dependent variable, meaning that the larger the firm, the less is invested in outsourced lobbying. The same applies to the control variable Cash Holdings: the more the available resources, the less the outsourced lobbying. Combining these results with the above-mentioned finding which sustains H2, it turns out that large firms (therefore more visible and holding more available cash) and that have a better reputation provided by CSR practices and disclosure will make use of their superior reputation and will not spend in outsourced lobbying.

5.1. Robustness checks

5.1.1. Industry heterogeneity

To test for heterogeneity, industries in the sample are classified as belonging to sin sectors or not, through their SIC Codes (Standard Industrial Classification). Sin sectors or stigmatized industries are those characterized by social contestation and hostile audiences (Durand & Vergne, 2015). The following industries have been considered as stigmatized according to previous literature (Cai, Jo & Pan, 2012; Durand & Vergne, 2015; Lee & Comello, 2019): alcohol, tobacco, weapon, oil, biotech, gambling and mining.

As can be observed in Table 6, the coefficient for CSR Strategy Score remains consistent and statistically significant in model 1, when comparing total sample, nonsin sectors and sin sectors samples, which lends support to previous finding. In model 2, however, the coefficient for CSR Strategy Score is negative for sin sectors. This result suggests that CSR efforts for firms that operate in stigmatized industries are worthless, as their reputation is not well assessed due to the nature of their business, and they will need to hire external lobbyists. In another way, it reinforces the idea that reputation matters for political activity.

Table 6: Results of OLS regression analysis on lobbying – heterogeneity

	Model 1			**Model 2**		
VARIABLES	all sectors	nonsin sectors	sin sectors	all sectors	nonsin sectors	sin sectors
CSR Strategy Score	0.0171***	0.0152***	0.0313***	-0.00473***	-0.00516***	0.00691***
	(0.00222)	(0.00240)	(0.00743)	(0.000529)	(0.000576)	(0.00161)
Total assets	4.18e-06***	3.96e-06***	5.38e-06***	-5.35e-07***	-4.14e-07***	-4.80e-08
	(3.47e-07)	(3.42e-07)	(1.88e-06)	(8.05e-08)	(7.94e-08)	(3.94e-07)
ROA	0.00566	-0.00316	0.00478	0.000368	0.00138	0.000322
	(0.00706)	(0.00754)	(0.0156)	(0.00168)	(0.00178)	(0.00355)
Cash holdings	2.25e-05***	1.77e-05***	4.28e-05*	-3.94e-06***	-4.42e-06***	-2.66e-06
	(5.52e-06)	(6.07e-06)	(2.34e-05)	(1.28e-06)	(1.41e-06)	(4.89e-06)
Leverage	-0.00259**	0.000605	0.00723**	0.000136	-0.000186	-0.00181**
	(0.00116)	(0.00118)	(0.00355)	(0.000283)	(0.000282)	(0.000820)
Constat	11.18***	12.56***	12.14***	0.448**	0.708***	0.843***
	(0.574)	(0.304)	(0.668)	(0.176)	(0.0729)	(0.147)
Observations	2,314	1,948	366	2,179	1,845	334
R-squared	0.315	0.139	0.127	0.249	0.086	0.076
Year FE	yes	yes	yes	yes	yes	yes
Industry FE	yes	no	no	yes	no	no

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

5.1.2. Alternative proxy for independent variable

Robustness checks regarding alternative proxy for independent variable are also provided. Table 7 presents OLS regression analysis, substituting the independent variable CSR Strategy Score for the ESG Controversies Score, both in Models 1 and 2. The ESG Controversies Score considers negative media stories or scandals involving and impacting the firm, based on 23 ESG controversy topics (Thomson Reuters, 2019). It is also obtained from Thomson Reuters Eikon's database; however, it is the only self-reported measure in the database: data is captured from global media sources. All other scores from this database are self-reported, including CSR Strategy Score.

The coefficients for Controversy Score remain consistent with CSR Strategy Score and statistically significant in both models, enlightening the findings for both Hypotheses 1 and 2, likewise lending support for H2 but not for H1.

Table 7: Results of OLS regression analysis of controversy score on lobbying

	Model 1	**Model 2**
VARIABLES		
Controversy Score	-0.0158***	0.00234***
	(0.00122)	(0.000304)
Total assets	3.68e-06***	-4.76e-07***
	(3.82e-07)	(9.27e-08)
ROA	0.00682	0.000118
	(0.00693)	(0.00172)
Cash holdings	8.49e-06*	-2.21e-06*
	(4.93e-06)	(1.19e-06)
Leverage	-0.00269**	0.000158
	(0.00114)	(0.000288)
Constat	12.99***	0.169
	(0.541)	(0.176)
Observations	2,296	2,168
R-squared	0.345	0.239
Year FE	yes	yes
Industry FE	yes	yes

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

5.1.3. Firm fixed effects

Alternatively to industry fixed effects, hypotheses 1 and 2 are also tested considering firm fixed effects, including a dummy for each firm, as to control for any omitted firm factors that could affect lobbying spending decisions.

As can be seen, results are not significant for Model 1, therefore, not lending support to findings regarding the baseline model. However, they remain consistent and significant for Model 2, lowering the uncertainty about this estimation.

Table 8: Results of OLS regression analysis on lobbying – firm fixed effects

	Model 1		**Model 2**	
	w/o controls	w controls	w/o controls	w controls
VARIABLES				
CSR Strategy Score	0.00174	0.00162	-0.000715*	-0.000771**
	(0.00141)	-1125	(0.000370)	(0.000372)
Total assets		7.81e-07*		-3.10e-07***
		-1678		(1.16e-07)
ROA		-0.0128**		0.000435
		(-2.251)		(0.00146)
Cash holdings		-1.47e-06		-6.26e-07
		(-0.444)		(8.20e-07)
Leverage		-0.00118		6.30e-05
		(-1.260)		(0.000247)
Constat	12.19***	12.45***	1.151***	1.116***
	(0.288)	(42.20)	(0.0726)	(0.0743)
Observations	2,589	2,314	2,413	2,179
R-squared	0.842	0.845	0.797	0.805
Year FE	yes	yes	yes	yes
Firm FE	yes	yes	yes	yes

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

6. DISCUSSION AND CONCLUSION

The purpose of the present study is to investigate the interactions between the nonmarket strategies, CSR and CPA, under the Resource-based view lens. Specifically, it aims to examine the influence of CSR reputation on lobbying spending decisions, sustaining the synergies of the nonmarket strategies. The underlying argument is that CSR augments reputational resources, which in turn facilitate access to policymakers, therefore enhancing CPA efforts. Under this assumption, CSR complements CPA through reputational resources, and the firm benefits from this synergy.

To verify this perspective empirically, two models are tested in ordinary least square regression analysis in US-based firms. Model 1 takes into consideration the total lobbying spending, not highlighting the entity, whereas Model 2 particularly regards the lobbying source, proposing that high CSR reputation lowers the need for outsourced lobbying.

A panel analysis comprising the period within 2002 and 2014 is run to control for omitted variable bias. Besides, controls for year and industry fixed effects are considered, in addition to other control variables. Industry fixed effects should account for any time-invariant industry characteristics that affect both CSR and CPA variables, whereas year fixed effects should account for macro-economic factors that affect both variables.

Results do not lend support to Hypothesis 1, which claims that the more socially responsible the firm is, the less it will spend in lobbying. However, findings provide evidence to support Hypothesis 2 arguing that the more socially responsible the firm is, the less it will spend in outsourced lobbying.

Taking a joined look at both results, one feasible explanation is that firms that are more socially responsible will benefit from their superior reputation status, and, as they hold more advantageous positions, they will likely spend more in lobbying, exploiting this status to access policymakers and address political claims. In the same way, firms that are less socially responsible, hence holding inferior reputational status, will likely spend less in lobbying, as it would require too much effort to influence the political arena, thus making lobbying spending worthless. Notwithstanding, when it comes to differentiating the lobbying entity, findings support the importance of CSR reputation on lobbying spending decisions. Firms holding better CSR reputational status will not need to spend in outsourced lobbying, as the firms themselves are assessed as trustful and as potential good partners for any deal, specifically in the political arena. Thus, firms with better CSR reports may decide to invest more in CPA profiting from their superior reputational status and access to polity due to this status, however, investing less in external lobbyists to address their claims.

Therefore, although results do not lend support do Hypothesis 1, findings on Hypothesis 2 are consistent with Den Hond *et al.* (2014)'s proposition according to which CSR practices enhance reputation, and then, facilitate access to the political audience. This, in turn, lowers the need for outsourced lobbying spending. Moreover, findings are also in line with Rehbein and Schuler (2015), as CSR contributes to the development of organizational resources, and the enhancement of these firm-level resources will improve the effectiveness of CPA. In both cases, the two nonmarket strategies have synergic gains when considered together and aligned. However, it is important to point out that it is difficult to ensure the complementarity of CSR and CPA, based on synergies, as the effect in performance is not measured.

6.1. Contributions

This study contributes to the existing literature in many ways. First, it adds to the nonmarket strategy literature by analyzing the interaction between CSR and CPA. As previously mentioned, researches in this field have examined each nonmarket strategy separately, despite the recent efforts for a combined perspective (Liedong *et al*., 2015). Specifically, this study focuses on the complementarity between them, shedding light on the potential gains when the firm consciously adopts a joined approach.

Second, within the few studies that integrate the nonmarket strategies, most are conceptual, as observed before (Frynas *et al*., 2017). Hence, this research contributes to this body of work by developing an empirical approach.

Third, the literature on reputation is also enlightened. Specifically, the aspect of visibility of the actions that shape reputation is particularly explored, as the study takes into consideration the firms' reported CSR actions, encompassing their efforts to communicate to the public in general their commitment to best practices.

Fourth, the discussions presented here add to the Resource-based view, as this lens is explored to examine the reputation as a strategic resource. Basic building blocks of this perspective are retrieved and applied to reputation, specifically the characteristics encompassed in the VRIO framework (Barney, 1995). The present study contributes with additional insights by deepening the analysis on reputation under the RBV approach, particularly exploring the interplay of nonmarket strategies, by connecting CSR, as a source of reputation building and improvement, to CPA, as it facilitates the political access.

Finally, this research adds to the literature of CPA, especially to the body of research on lobbying. Findings provided in Hypothesis 2 test shed light on the choice of the lobbying entity when the reputation of the firm is taken into account, as they indicate that firms that communicate more CSR practices spend less in outsourced lobbying. Previous researches have explored how CSR impacts CPA performance (Flammer, 2018; Luo *et al.*, 2018; McDonnell & Werner, 2016), yet not differentiating the lobbying entity. Besides, heterogeneity test reinforces the importance of reputation for political activity, when industry stigma is taken into account.

6.2. Managerial implication

The findings of this study bring up some relevant practical implications. As sustained previously, firms that hold better reputational status due to CSR practices spend less in outsourced lobbying. Therefore, managers in their seek for competitive advantage should regard an integrated perspective of CSR and CPA into their strategic decision making, and hence benefit from the synergies of the nonmarket strategies' complementarity.

Specifically, the findings indicate that the choice of the lobbying firm, whether in-house or outsourced, varies according to the firm's reputational CSR status. Therefore, results stress the importance of the strategic decision about who will address the political demands, taking the firm's reputational status into account.

Finally, as reputation encompasses a fundamental aspect of assessment, firms should also take into consideration the relevance of transparency and communication of their CSR practices. In fact, the present study is based on a measure of CSR that focuses on this aspect.

6.3. Limitations and future research

This study presents some limitations that require further investigation. First, it is hard to evaluate the complementarity of nonmarket strategies, which is argued to be based on synergies, when the effect in performance is not measured. This applies to both Hypotheses 1 and 2, regardless of the results of their testing. Accordingly, this limitation raises some questions to be further explored: what would be the effect on the performance of firms that are more socially responsible and spend more in lobbying? Would they achieve better results in their political claims and hence in their financial outcomes? Likewise, firms that are more socially responsible and spend less in outsourced lobbying would achieve better political and financial performance compared to other competitors? Would the choice of the lobbying entity be relevant?

As this study presents an empirical analysis of the association between CSR and lobbying spending, more work is necessary to investigate the causal relationship between them. Control and fixed effects can help address potential cofounds; however, they do not completely avoid other unobservable time-varying firm characteristics that may affect independent and dependent variables (Flammer, 2018), or CSR practices and lobbying spending. Reverse causality is also an endogenous problem that control variables and fixed effects will not address. In this regard, exogenous shocks as quasi-natural experiments might be further identified to address endogeneity.

An important weakness of this study is that reputation is not directly measured, but only inferred. It is difficult to assess the benefits of CSR as they consist of intangible resources (McWilliams & Siegel, 2001). Although concerns about how to measure reputation have been vastly discussed in the field (Boyd *et al.,* 2010; Rindova *et al.*, 2005; Rindova *et al.*, 2010), previous researches have adopted some measures that could potentially be explored and add to this study in the future.

Future related work could extend this empirical analysis and consider other forms of CPA and CSR. For instance, other aspects of the political activity, beyond lobbying, such as political ties (Gao & Hafsi, 2017; Liedong *et al.*, 2017; Sun *et al.*, 2012) and campaign donations (Alakent & Ozer, 2014; Hadani & Coombes, 2015; Wang & Qian, 2011), could also be examined. Likewise, other forms of CSR, such as Corporate Philanthropy (Gao & Hafsi, 2017; Hadani & Coombes, 2015; Luo *et al.*, 2018; Wang & Qian, 2011) and other measures that account for broader CSR perspectives, such as KLD (Alakent & Ozer, 2014; Flammer, 2018; Richter, 2011) could complement this investigation.

Finally, the empirical findings are based on evidence from a single country. Although practices and disclosure in the US have been considered highly developed for nonmarket strategies, particularly for CPA (Lawton *et al.*, 2013), it would be challenging to extend the analysis to other markets, regardless of the constraints of collecting data (Liedong *et al.*, 2017).

Specifically, emerging markets bring interesting possibilities for future studies in the nonmarket strategy field (Doh *et al.*, 2012), and have been less explored in the literature.

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8. APPENDIX

Table 1: Literature on nonmarket strategies complementarity

Author(s) / year	Title	Approach	Independent variable and measure	Dependent variable and measure	Control variables / others	Theoretical lens	Connecting logic of complementarity (CSR and CPA)
Flammer (2018)	Competing for government procurement contracts: The role of corporate social responsibility	Empirical	CSR: KLD	CPA performance: n. of procurement contract with government	Control: size, profitability, market value, cash holdings, leverage, PAC contributions	Transaction Costs Theory	Trust
Luo et al. (2018)	Winning us with trifles: Adverse selection in the use of philanthropy as insurance	Empirical	CSR: corporate philanthropy donation	CSR irresponsibility*: oil spill	Control: size, profitability, cash holdings, capital expenditure, n. of production facilities, n. of nonproduction facilities, sales, firm (FF), state (FF), year (FF)	Classic economics theories on insurance markets under information asymmetry	Reputation
Frynas et al. (2017)	Non-market Social and Political Strategies – New Integrative Approaches and Interdisciplinary Borrowings (*special issue*)	Theoretical	N/A	N/A	N/A	N/A	N/A
Gao & Hafsi (2017)	Political dependence, social scrutiny, and corporate philanthropy: Evidence from disaster relief	Empirical	CPA: political ties (political membership of a firm's board Chairperson or CEO)	CSR: corporate philanthropy donation	Control: firm size, financial performance, leverage, ownership type and industry	Resource Dependence Theory Instutional Theory	Legitimacy
Garcia (2016)	The Influence of Corporate Social Responsibility on Lobbying Effectiveness: Evidence from Effective Tax Rates	Empirical	CPA: lobbying expenditure	CPA performance: effective tax rates (return on lobbying expenditure)	Moderator: CSR Control: industry (FF), year (FF), profitability, intelectual property, leverage, foreign ownership, size, inventory intensity, capital intesity	Shareholder Theory Stakeholder Theory	Reputation
McDonnell & Werner (2016)	Blacklisted Businesses: Social Activists' Challenges and the Disruption of Corporate Political Activity	Empirical	CSR: reputational threat by social movement boycotts	CPA performance: rejection of campaign contributions + # times a firm is invited to give testimony in congressional hearings + # government procurement	Moderators: issue salience, field status Control: year and quarter (FF), status, corporate political aligment, performance, size, PAC contributions (CPA), industry (FF), state (FF), if subsidiary, boycott political ideology, boycott issue.	Stakeholder Theory **	Legitimacy Reputation
Hadani & Coombes (2015)	Complementary Relationships Between Corporate Philanthropy and Corporate Political Activity: An Exploratory Study of Political Marketplace Contingencies	Empirical	Industry-level political uncertainty	Combined: CSR: corporate philanthropy donation + CPA: lobbying expenditures, PAC contributions and soft money contributions + other related expenditures	Control: year, industry, performance, size, slack resource, book-to-market ratio, advertising intensity	Resource-Based-View** Institutional Theory **	Legitimacy Trust Reputation
Liedong et al. (2015)	Toward a View of Complementarity: Trust and Policy Influence Effects of Corporate Social Responsibility and Corporate Political Activity	Theoretical	N/A	N/A	N/A	-	Trust
Rehbein & Schuler (2015)	Linking Corporate Community Programs and Political Strategies: A Resource-Based View	Theoretical	N/A	N/A	N/A	Resource-Based-View	Reputation
Alakent & Ozer (2014)	Can companies buy legitimacy? Using corporate political strategies to offset negative corporate social responsibility records	Empirical	CSR: KLD	CPA: corporate political strategies (CPS) – lobbying expenditures, PAC contributions and soft money contributions	Moderators: advertising intensity and slack resources Control: performance, leverage, size, liquidity, year and industry	Institutional Theory	Legitimacy
den Hond et al. (2014)	Playing on Two Chessboards: Reputation Effects between Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA)	Theoretical	N/A	N/A	N/A	Resource-Based-View**	Reputation
Richter (2011)	'Good' and 'Evil': The Relationship Between Corporate Social Responsibility and Corporate Political Activity	Empirical	CSR: KLD CPA: lobbying expenditure	Financial performance: Tobin's Q	Control: size, leverage, capital intesity, R&D intensity	Shareholder Theory Stakeholder Theory	-
Sun et al. (2012)	The Contingent Value of Corporate Political Ties	Theoretical	N/A	N/A	N/A	Market Transaction Perspective and Social Exchange Perspective (ex. RDT)	Reputation
Wang & Qian (2011)	Corporate Philanthropy and Corporate Financial Performance: The Roles of Stakeholder Response and Political Access	Empirical	CSR: corporate philanthropy donation	Financial performance: ROA and market-to-book ration	Moderatores: political connections, advertising intensity, market development, past financial performance, government ownership Control: size, age and leverage; slack resources and industry-average charitable contributions	Stakeholder theory	Legitimacy

*Not explicit. **Theoretical lens not specified (assumed by the author)