

**WITH STRINGS ATTACHED: THE BELIEF IN THE BUSINESS CASE FOR
CORPORATE SOCIAL RESPONSIBILITY AND ITS GROUNDING IN FAIR
MARKET IDEOLOGY**

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Upper echelons research on corporate social responsibility (CSR) argues that executives who believe in the business case for CSR lead their firms towards greater CSR engagements than other executives. However, so far, this belief has only been inferred from rather distant biographical proxies. We examine this belief in the business case for CSR and its psychological underpinnings more closely and find that it comes with inconvenient strings attached: it is grounded in fair market ideology, which, in turn, leads individuals to be less sensitive to the ethical dimension of corporate activities and thereby decreases their tendency to engage in CSR. Two competing factors (belief in the business case and ethical insensitivity) have therefore a shared origin in fair market ideology. To investigate this important tension, we analyze the effect of these two competing factors on CSR engagement concurrently. We find that fair market ideology has a positive indirect effect on CSR engagement via the belief in the CSP-CFP link, which is, however, outweighed by a larger negative indirect effect via ethical insensitivity. Our results lead us to caution against the almost universal assertion that a stronger belief in the business case for CSR will readily lead to enhanced CSR engagements.

Key Words: business case for corporate social responsibility, upper echelons, fair market ideology, ethical insensitivity

Along with the expansion of firms' activities in the area of corporate social responsibility (CSR) in the past decade (Etzion & Ferraro, 2010; Scherer & Palazzo, 2011), researchers have started examining the factors that lead companies to engage in CSR. The bulk of this research has traditionally emphasized the importance of environmental factors, such as pressures stemming from activists (Den Hond & De Bakker, 2007; King, 2008; Mena & Waeger, 2014; Soule, 2009), the general institutional environment (Kolk, 2005; Matten & Moon, 2008), a company's industry (Barley, 2007; Weber, Rao, & Thomas, 2009) or its peers (Waddock, 2008). Recently, scholars have increasingly focused on firm-internal drivers and upper echelons theorists have started exploring in more depth the intuition that a company's CSR engagement may in part be determined by the general characteristics, values and beliefs of its top management (Lewis, Walls, & Dowell, 2014; Petrenko, Aime, Ridge, & Hill, 2015; Pless, Maak, & Waldman, 2012; Voegtlin, Patzer, & Scherer, 2012; Waldman & Balven, 2014; Waldman & Siegel, 2008).

Upper echelons theory posits that, under conditions of managerial discretion, the highly individualized lenses of executives come into play and explain a substantial part of the heterogeneity in firm outcomes (Hambrick & Finkelstein, 1987; Hambrick & Mason, 1984). Managerial discretion is the degree of latitude that executives have in their decisions (Finkelstein & Hambrick, 1990) and is particularly prevalent in complex and ambiguous decision areas (Hambrick, 2007), such as CSR (Stahl & de Luque, 2014; Wang, Choi, & Li, 2008). Accordingly, upper echelons theorists have argued that characteristics of individual executives – operationalized via biographical proxies – influence the degree to which firms engage in CSR (Lewis et al., 2014; Petrenko et al., 2015).

Scholars have proposed several theoretical rationales to explain why these

biographical proxies determine firms' level of CSR engagement. One of these rationales is that certain biographical proxies are an expression of the extent to which executives believe in the business case for CSR or, put differently, in a link between corporate social performance (CSP) and corporate financial performance (CFP) (Chin, Hambrick, & Treviño, 2013; Orlitzky, Schmidt, & Rynes, 2003). This belief in the CSP-CFP link is seen as crucial because one reason why corporate leaders are thought *not* to engage their firms in CSR is precisely that “many leaders believe there is an inherent trade-off between being profitable and being socially responsible” (Stahl & De Luque, 2014: 237; see also Porter & Kramer, 2002, 2006, 2011). Inversely, scholars also expect executives to be willing to engage in CSR when these executives believe that there is alignment between being profitable and being socially responsible (Margolis, Elfenbein, & Walsh, 2009; Vogel, 2005; Waddock & Graves, 1997).

Because existing research sees the belief in the business case for CSR as important for companies' CSR engagement, the question that arises is: how do individuals form this belief? An extensive body of research in psychology has shown that individuals do not form beliefs in isolation, but that they integrate specific beliefs in their more general belief system (Allport, 1962; Bobbio, 1996; Converse, 1964; Knight, 2006). For our research context, this means that individuals' specific beliefs about companies are not independent from their more general attitudes towards the economic system within which these companies operate. Individuals' general attitudes towards systemic arrangements – such as the economic system – is the focus of system justification theory (Jost & Banaji, 1994; Jost, Banaji, & Nosek, 2004; Proudfoot & Kay, 2014).

We therefore build on this rich system justification literature to explain the psychological origin of executives' belief in the CSP-CFP link. We argue that the

belief in the CSP-CFP link is formed on the basis of executives' fair market ideology, a general belief system that is defined as a positive ideological stance over the market economy system (Cichocka & Jost, 2014; Jost, Blount, Pfeffer, & Hunyady, 2003a). Executives who hold a fair market ideology believe that the market economy is a fair and just system, in which socially responsible – and therefore 'fair' – corporate conduct is rewarded and thus leads to comparatively higher financial performance. Based on system justification theory, we therefore argue that executives holding a fair market ideology should believe in a positive link between CSP and CFP.

Finding that individuals' belief in the CSP-CFP link originates in fair market ideology would reveal an important theoretical tension in our understanding of how the belief in the CSP-CFP link becomes materialized in CSR-activities at the firm level. On the one hand, it is logical to expect that executives who believe in the CSP-CFP link *enhance* their companies' CSR-activities (Porter & Kramer, 2002, 2006; Vogel, 2005). On the other hand, however, fair market ideology has been shown to lead individuals to be less sensitive to the ethical dimension of corporate activities (Jost et al., 2003a). Such ethical insensitivity should *decrease* executives' tendency to engage in CSR: if they are insensitive towards the problem, then they are unlikely to take action against it. The theoretical tension thus arises from the fact that two contradictory elements (belief in the CSP-CFP link and ethical insensitivity) have their origin in the same underlying belief system (fair market ideology). This theoretical tension leads us to explore an additional aspect in the present article: we analyze how the belief in the CSP-CFP link and insensitivity to the ethical dimension of corporate activities *concurrently* impact on individuals' tendency to engage in CSR activities. If we find that the impact of ethical insensitivity outweighs the impact of the belief in the CSP-CFP link, then this requires an important reassessment of how

executives' belief in the business case for CSR becomes manifested in the level of CSR engagement of their firms.

We conducted four studies to address these points. In all four studies we relied on an original prediction game specifically designed to measure participants' belief in the CSP-CFP link. The results from the first study show that executives' belief in the CSP-CFP link is correlated with their fair market ideology. In study two, we confirm and extend these results. We find that there is a relationship between educational background – a biographical proxy often used in upper echelons theory (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick & Mason, 1984) – and the belief in the CSP-CFP link and that this relationship is explained by fair market ideology. In study three, we experimentally establish that fair market ideology causally leads individuals to believe in a positive relationship between CSP and CFP. And in study four, we show that fair market ideology predicts the belief in the CSP-CFP link, which, in turn, leads individuals to an increased tendency for CSR-engagement. At the same time, however, we also find that fair market ideology predicts individuals' insensitivity to the ethical dimension of corporate activities, which, in turn, leads to a decreased tendency for CSR-engagement. When examining the two effects concurrently, we find that fair market ideology's positive impact on CSR-engagement via its effect on the belief in the CSP-CFP link is outweighed by fair market ideology's negative impact on CSR-engagement via its effect on ethical insensitivity.

With the present paper we make several contributions. First, we explore the origins of executives' belief in the CSP-CFP link. Extant upper echelons research emphasizes the importance of executives' belief in the CSP-CFP link for CSR engagements at the firm-level, but it has remained silent on the origins of this belief. We inquire into the psychological foundations of this belief and examine how it is

grounded in individuals' fair market ideology. In doing so, we heed Hambrick's (2007) call to advance upper echelons theory by exploring the psychological antecedents of executives' characteristics, values and beliefs.

This first contribution directly leads to our second one. We find that fair market ideology does not only lead individuals to believe in the business case for CSR, but that it also makes them less sensitive to the ethical dimension of corporate activities. Such insensitivity, in turn, decreases individuals' tendency to engage in CSR activities. Hence, the belief in the business case for CSR comes with inconvenient strings attached: it is grounded in a more general belief system (fair market ideology) that weakens individuals' tendency to engage in CSR (because it leads to ethical insensitivity). This finding prompts us to caution against the almost universal assertion that a stronger belief in the business case for CSR will readily lead to enhanced CSR engagements.

And third, we contribute to upper echelons theory by providing an innovative method to measure the belief in the business case for CSR. Presently, upper echelons theorists have assumed that this belief can be reliably inferred from rather distant biographical proxies. However, such biographical proxies are problematic because we cannot be sure that the proxies correlate with organizational outcomes for the reasons we hypothesize (Carpenter et al., 2004; Hambrick, 2007; Lawrence, 1997). For instance, we know that politically liberal CEOs lead companies to greater CSR engagements than conservative CEOs. But is this because liberal CEOs believe more strongly in the business case for CSR than conservative CEOs or could it be that liberal CEOs are, compared to their conservative peers, more likely to appreciate CSR as normatively desirable (Chin et al. 2013)? As upper echelons theorists have argued, if we want to be able to make more grounded hypotheses, there is a need to open the

black box of executives' general characteristics (Geletkanycz & Black, 2001; Hambrick, Geletkanycz, & Fredrickson, 1993), and therefore to observe the belief in the link between CSP and CFP more directly. In the present article, we do so by measuring this belief through an original prediction game.

The remainder of this article is structured as follows: in the next section, we develop our hypotheses on the relationships between fair market ideology, the belief in the business case for CSR, and CSR engagement. We then report the methods and results from our four studies. Finally, we conclude by discussing implications of our studies and possible avenues for future research.

THEORY & HYPOTHESES

Upper echelons theory and CSR

For a long time, CSR has mostly been studied from a macro-level perspective (Aguinis & Glavas, 2012; Waldman & Siegel, 2008). However, in recent years there has been increased interest in firm-internal factors, as is reflected in the emergence of the responsible leadership literature, which applies a more micro-level perspective to CSR (Pless et al., 2012; Voegtlin et al., 2012; Waldman & Balven, 2014). Several insights have emerged from this turn to firm-internal drivers of CSR. For instance, Pless et al. (2012) and Waldman, Siegel, and Javidan (2006) propose that a company's CSR engagement depends in part on the leadership orientation of its executives. Complementary research has stressed intrinsic drivers for managers promoting and implementing CSR within firms. Hence, building on self-determination theory (Ryan & Deci, 2000), one of the arguments of (Rupp, Williams, & Aguilera, 2011: 75) is that "[d]ecision makers will show more motivation for engaging in CSR when they feel empowered, competent and efficacious in creating

policies”. In line with such a focus on intrinsic drivers, Muller and Kolk (2010) show that a higher commitment to ethics by executives leads to higher levels of CSR. And in an alternative line of inquiry, upper echelons theorists have connected companies’ extent of CSR engagement to observable characteristics of executives (Deckop, Merriman, & Gupta, 2006; Slater & Dixon-Fowler, 2010) and especially to biographical proxies such as educational background (Arce, 2004; Manner, 2010; Rivera & De Leon, 2005). One of the rationales upper echelons theorists have provided to explain correlations between biographical proxies of executives and the extent of CSR engagement at the firm level is that such biographical proxies are indicators of the belief in the business case for CSR (Chin et al., 2013). This belief in the business case, in turn, is generally seen as a crucial motive for executives to engage their companies in CSR (Orlitzky et al., 2003; Porter & Kramer, 2002, 2006; Stahl & de Luque, 2014; Waddock & Graves, 1997).

In the present paper we contribute to this latter upper echelons literature. Since in this literature the belief in the business case for CSR is seen as a notable driver for companies’ CSR engagement, it is important to approximate this belief not only through biographical proxies, but to instead develop a more refined theoretical understanding of this belief. In particular, if this belief is indeed so important, the question that arises is: how do executives form this belief? We adopt a social psychological lens to investigate why individuals believe in the business case. Social psychologists have contributed to the understanding of belief formation by pointing out that specific beliefs are embedded in more general, relatively coherent belief systems or ideologies (Allport, 1962; Bobbio, 1996; Converse, 1964; Jost & Major, 2001; Jost, Nosek, & Gosling, 2008; Knight, 2006). For specific beliefs about companies – such as the belief in the business case for CSR –, this implies that they

should be investigated in consideration of individuals' attitudes towards the more general economic system within which these companies operate. Individuals' general attitudes towards systemic arrangements – such as the economic system – is the focus of system justification theory. We therefore draw on system justification theory to theorize about how executives form their belief in the business case for CSR.

System justification theory and the belief in the business case for CSR

System justification theory (Jost & Banaji, 1994; Jost et al., 2004) is a social psychological theory that explores individuals' stance over systemic social arrangements. Examples for such social systems are the political system (Feygina, Jost, & Goldsmith, 2010) or the market economy system (Jost et al., 2003a). The starting point for system justification theory is the commonplace assertion that powerful social systems strongly impact the lives of individuals. If individuals perceived these systems to be unfair and flawed, they would have to fear that these systems impact their lives negatively. This, in turn, would lead individuals to experience psychological anxiety and threat (Proudfoot & Kay, 2014). Individuals, however, strive to avoid such anxiety and threat in order to maintain a sense of psychological stability and safety – an existential human need (Jost, Glaser, Kruglanski, & Sulloway, 2003b; Jost & Hunyady, 2005; Jost et al., 2010; Lerner, 1980). To avoid such feelings of anxiety and threat, individuals are thus motivated to believe in the fairness of the social systems that surround them. This involves believing that the actors operating within a social system are treated fairly and that 'good' actors are rewarded whereas 'bad' actors are punished (Jost et al., 2004; Jost et al., 2003a; Lerner, 1980).

In line with this argument, research has found that individuals more strongly inclined to system justifying tendencies see the cause for poverty in poor people's ethically flawed character (Campbell, Carr, & MacLachlan, 2001; Harper, Wagstaff, Newton, & Harrison, 1990). Conversely, wealth is induced to stem from the ethically superior character of the wealthy (Campbell, Carr, & MacLachlan, 2001; Furnham & Procter, 1989). Individuals who justify a system thus endue negative ethical attributes to less successful actors within a system while enduing positive ethical attributes to more successful actors. Formulated differently, system-justifying individuals believe that it is because of an actor's negative ethical attributes that she/he is unsuccessful and it is because of an actor's positive ethical attributes that she/he is successful: in people's mind, actors' virtue leads to success and their wickedness to failure (Goffman, 2009; Heider, 2013; Lerner & Miller, 1978).

Importantly for the present article, individuals have also been shown to engage in system justification with respect to the market economy system (Caruso, Vohs, Baxter, & Waytz, 2013; Jost et al., 2003a). To measure specifically the degree to which individuals justify the market economy system, Jost, Blount, Pfeffer, and Hunyady (2003) have developed the 'fair market ideology'-scale. Individuals who score high on fair market ideology assume that "market-based [...] outcomes are not only efficient, but fair and just" (Cichocka & Jost, 2014: 8)¹. In order to uphold the

¹ Note that such an assumption is ideological because 'justice' and 'fairness' are qualities that go beyond the generally acknowledged descriptive properties of markets. It is widely accepted that the market economy is an economic system that efficiently allocates scarce resources. Yet, scholars generally do not argue that there is in market-based exchanges a necessary connection between efficiency on the one hand and fairness or justice on the other (Blount 2000; Friedman 1970; Sud and VanSandt 2011). For instance, in any market, actors who have better outside options will get better results. But actors with better outside options are not necessarily the ones who deserve better outcomes. Having an outside option means being in the position to walk away from a proposed deal. For instance, if I am rich, I might not work under bad working conditions. If I am not, I might not have an alternative, and accept the work. While this is very efficient (coordinating at a price that ensures that a maximal number of employers and workers get connected), there is no reason to believe that this is just and fair. Hence, when individuals assume that procedures and outcomes in a market economy are fair and just, they take an ideological stance over the market economy system.

belief in such fair and just outcomes, individuals need to believe that the actors in the market economy system “get what they deserve and deserve what they get” (Jost et al., 2003a: 58). Hence, and analogously to the above-reported findings concerning the evaluation of poor and wealthy people, individuals endorsing fair market ideology can be expected to attribute relative success or failure to how ethical they think the actors operating within the market economy are.

An important actor in the market economy is the profit-oriented firm and success is typically assessed in terms of the firm’s financial performance (Friedman, 1970; Margolis et al., 2009; Margolis & Walsh, 2003). In line with the above-discussed literature, individuals endorsing fair market ideology should endue lower degrees of ethicality or social responsibility to financially less successful firms while ascribing higher degrees of ethicality or social responsibility to financially more successful firms (Heath, Larrick, & Klayman, 1998; Jost et al., 2003a). Therefore, we expect individuals who uphold a fair market ideology to believe that it is because of a firm’s more ethical or socially responsible behavior in the past that this firm has become more financially successful than other firms in the present. Hence, individuals scoring high on fair market ideology should believe that more ethical or socially responsible firms exhibit a stronger financial performance than less ethical or socially responsible firms. In other words, we expect individuals high on fair market ideology to believe in a positive link between CSP and CFP.

Hypothesis 1: The higher individuals score on fair market ideology, the more strongly they believe in a positive link between CSP and CFP.

Recent scholarship has emphasized that the tendency to engage in system justification is stronger under specific circumstances (Day, Kay, Holmes, & Napier, 2011; Kay et al., 2009; Shepherd, Kay, Landau, & Keefer, 2011). In particular, the degree to which individuals perceive the system they are living or operating in as inescapable has been found to enhance individuals' system justification motive (Strike, Gao, & Bansal, 2006). The intuition behind this finding is that the reason why individuals engage in system justification in the first place – a need for psychological safety and security – is enhanced under conditions of system inescapability. In other words, “when people find themselves in a system they cannot escape, it is particularly psychologically threatening for them to acknowledge that system’s flaws” (Proudfoot & Kay, 2014: 178). Therefore, individuals who perceive their system as inescapable should engage more strongly in system justification. Laboratory research has found evidence for this argument. For instance, Kay et al. (2009) manipulated participants in an experiment to believe that it had become more difficult (respectively less difficult) to emigrate from their home country. After this manipulation, participants were told that politicians in their home country are disproportionately wealthy. Participants in the inescapability condition were found to view this indication of inequality as more justifiable than the other participants.

With regards to the market economy system, a natural way to explore the degree to which individuals ought to be exposed to a feeling of system inescapability is by looking at their educational background. Educational background is also often used as a proxy for underlying psychological orientations by upper echelons theorists (Carpenter et al., 2004; Hambrick, 2007; Hambrick & Mason, 1984). More specifically, research in the upper echelons tradition has argued that individuals with an educational background in business, economics or law hold similar attitudes when

compared to individuals with other educational backgrounds (Barker III & Mueller, 2002; Carpenter, 2002; Wiersema & Bantel, 1992). These similarities among business, economics and law students have been found to be particularly strong with respect to general worldviews on the market economy and the role of corporations therein (Fiss & Zajac, 2004), which are the focal interest of the present article.

In all of these curricula, an important part of the education is dedicated to teaching about firms as profit-seeking entities operating within an economic system that is grounded in market-based exchanges. Such an emphasis on the market economy system comes with a de-emphasis on other systems – or ‘orders of worth’ (Boltanski & Thévenot, 2006; Patriotta, Gond, & Schultz, 2011). The inner logic of systems other than the market economy is thus less present and available to individuals with an educational background in business, economics and law. This leads to a perception that the market economy system lacks alternatives. In turn, such a sense of a lack of alternatives enhances feelings of inescapability² (Kay & Friesen, 2011). As a consequence, an educational background in business, economics and law should be associated with a higher propensity to justify the market economy system, respectively with higher levels of fair market ideology. For upper echelons theorists, this is relevant because it indicates that educational background can be used as a biographical proxy for fair market ideology. And since we expect higher levels of fair market ideology to be associated with the belief in the CSP-CFP link (see hypothesis 1 above), it follows that an educational background in business, economics and law is

² It is important to note that we cannot distinguish between an effect of studying academic disciplines where issues related to the functioning of the market economy are taught, from a self-selection effect of people signing up for these academic disciplines. However, our point does not depend on whether this is a selection effect or a treatment effect. Our point is that people who study an academic discipline where issues related to the functioning of the market economy are discussed have an enhanced feeling that the market economy system pervades many aspects of their lives. They therefore feel that it is difficult to escape the reach of this system. They might already have had that feeling when self-selecting to study these subjects, or they might have developed it during their studies. Either way, our point here is unrelated to when exactly they developed it.

also associated with such a belief in the CSP-CFP link. In other words, there is a relationship between educational background and the belief in the CSP-CFP link and the mechanism that explains this relationship is fair market ideology. Stated formally:

Hypothesis 2: There is a positive indirect effect of educational background in business, economics and law on the belief in the CSP-CFP link. This indirect effect is mediated by fair market ideology.

If we find evidence to support our first two hypotheses, then fair market ideology can explain why individuals believe in the link between CSP and CFP. Such a finding, in turn, would allow us to draw inferences about how fair market ideology impacts on individuals' tendency to engage in CSR activities. Hence, academics have long seen executives' difficulty to believe in the business case for CSR as an important obstacle to an increased engagement of their firms in CSR (Porter & Kramer, 2002; Stahl & de Luque, 2014; Waddock & Graves, 1997). Obviously, for individuals who believe in the business case, this obstacle is lifted and they should thus have a comparatively increased tendency to engage in CSR activities (Chin et al., 2013; Orlitzky et al., 2003). This has implications for fair market ideology: if fair market ideology is predictive of the belief in the CSP-CFP link and this belief in the CSP-CFP link is in turn predictive of individuals' tendency to engage in CSR activities, then fair market ideology should have a positive indirect effect on the tendency to engage in CSR. Stated formally:

Hypothesis 3: There is a positive indirect effect of fair market ideology on tendency to engage in CSR activities. This indirect effect is mediated by the belief in the CSP-CFP link.

Seemingly in contrast to hypothesis 3, existing research has found evidence that system justification in general and fair market ideology more specifically are associated with attitudes and actions that ought to run counter to an increased tendency to engage in CSR activities. For instance, Feygina et al. (2010) find that individuals who engage more in system justification are also more likely to deny the existence of global warming and, as a consequence thereof, are less likely to engage in pro-environmental behavior. Similarly, Wakslak, Jost, Tyler, and Chen (2007) report that system justification leads to lower levels of moral outrage over social inequality and thereby to lower support of policies meant to alleviate such social inequality. And more specifically with respect to the context of corporations operating in a market economy, Jost et al. (2003a) have investigated the attitudes of MBA-students towards scandals. They found that MBA-students who score higher on fair market ideology were less concerned about ethical violations and dubious accounting practices at US companies.

How can these findings be explained? As reviewed above, foundational to system justification theory is the contention that human beings are fundamentally in need of psychological safety and stability. Living in unfair and unjust social systems would undermine such psychological safety and stability. Individuals are thus motivated to perceive the social systems they are living and operating in as just, fair and legitimate (Jost & Banaji, 1994; Jost et al., 2004). When developing hypothesis 1, we have discussed one consequence of this motivation: individuals high on fair market ideology attribute success of actors in the market economy system to the ethical character of these actors. Concretely, they believe that companies with

superior CFP are successful because they are ethically 'good' respectively have a strong CSP. In other words, they see CSP as a predictor of CFP.

System justification theorists have argued for another, more general consequence of individuals' motivation to perceive the system as fair and legitimate: individuals avoid gathering and processing information that could draw their attention to problems in the system (Proudfoot & Kay, 2014; Shepherd & Kay, 2012, 2014). For instance, Shepherd and Kay (2012) provide evidence that individuals who scored higher on system justification tried harder to avoid information about economic issues during a recession. And Shepherd and Kay (2014) found a similar effect when studying information acquisition about the BP oil spill. By avoiding information about the environmental disaster caused by BP's corporate activities, individuals could downplay or even deny the very existence of this problem within the larger economic system, thereby maintaining their perception of a fair and legitimate economic system. By avoiding to gather and process information on socially, environmentally or otherwise ethically problematic activities by corporations operating within the market economy system, system justifying individuals thus become insensitive to the ethical dimension of corporate activities. Such insensitivity, in turn also decreases their propensity to engage in activities that would alleviate the underlying problems (Feygina et al., 2010; Gifford, 2011): without awareness that there is an ethical dimension in corporate activities, there is no basis to identify potential problems and for deciding whether to take corrective action – for example via an engagement in CSR activities (Butterfield, Trevin, & Weaver, 2000; Palazzo, Krings, & Hoffrage, 2012).

Hence, individuals who score higher on fair market ideology should be less sensitive to the ethical dimension of corporate activities and they should therefore also

be less likely to engage in CSR activities. In other words, if fair market ideology is predictive of ethical insensitivity and this insensitivity is in turn predictive of individuals' tendency to engage in CSR activities, then fair market ideology should have an indirect negative effect on the tendency to engage in CSR. Stated formally:

Hypothesis 4: There is a negative indirect effect of fair market ideology on tendency to engage in CSR activities. This indirect effect is mediated by insensitivity to the ethical dimension of corporate activities.

Overview of studies

This series of hypothesis converges in the theoretical framework depicted in Figure 1. The centerpiece is path B, connecting fair market ideology and the belief in the CSP-CFP link, as proposed in Hypothesis 1. In study 1, we provide a first test of this path with a sample of executives. Additionally, in study 3, we test this path experimentally to rule out concerns about reverse causality or omitted variables. Path A connects educational background, a proxy often used in upper echelons research, to fair market ideology. Path A and B combined describe the indirect effect from educational background to the belief in the CSP-CFP link via fair market ideology, which we propose in hypothesis 2. In study 2, we test this indirect path, exploiting the natural variation in educational backgrounds in a student sample. Path C, D and E bring CSR engagement into the picture. Path C connects the belief in the CSP-CFP link to CSR engagement. Path C and path B together illustrate the indirect positive effect of fair market ideology on CSR engagement via the belief in the CSP-CFP link, proposed in hypothesis 3. Path D leads from fair market ideology to insensitivity to the ethical dimension of corporate activities. Path E describes the negative link

between ethical insensitivity and CSR engagement. Path D and E combined constitute the negative effect from fair market ideology on CSR engagement via ethical insensitivity, proposed in hypothesis 4. In study 4, we investigate these two indirect effects (path B+C and path D+E) concurrently.

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STUDY 1: EXECUTIVES' BELIEF IN THE CSP-CFP LINK AND FAIR MARKET IDEOLOGY

Sample

For this study, we followed Hambrick's (2007) suggestion to use executive MBAs (EMBA) to examine executives' beliefs and their antecedents. We chose an executive sample for our first study to establish the relevance of fair market ideology and its effect on the belief in the CSP-CFP link for executives. We recruited 59 executives from an EMBA class at a large Swiss university. We excluded 12 participants because they did not complete the questionnaire respectively did not understand the instructions or the incentive structure of their task (as determined by a failure to answer control questions correctly). This resulted in a final sample of 47 participants, of which 12 (26 %) were women and 35 (74 %) men. The executives were on average 37 ($SD = 5.1$) years old and had 11 ($SD = 4.8$) years of managerial experience. 20% worked for small companies (1-50 employees), 23% for medium sized companies (51-500 employees) and 57% for large companies (more than 500 employees).

Measures

Belief about the link between CSP and CFP. To measure our subjects' belief about the nature of the link between CSP and CFP, we developed a prediction game.

Participants predicted CFP based on information about prior financial performance and prior social performance. The use of a prediction game allowed us to set incentives for participants to make their judgments according to their actual and true belief and thereby to avoid social desirability bias. Appendix 1 provides an example of how the predictions were made.

In the prediction game, participants were given information on the social performance and the financial performance of a company at one point in time (time T). On the basis of these two pieces of information, they had to predict the financial performance of this company two years after that point (time T+2).

All the information we presented to the respondents was based on real data. To operationalize social performance, we used data from Covalence EthicalQuote (www.ethicalquote.com) from 2002 to 2006 for a total of 183 companies taken from the Dow Jones Sector Titans Index, an index of the biggest companies in important industries. Covalence EthicalQuote is a rating agency based in Geneva, Switzerland, and is specialized in assessing external information about the social and environmental performance of companies. Their methodology is based on the difference of all positive and all negative pieces of information about the social and environmental consequences of the companies' activities reported in the news media worldwide (in English, Spanish, French and German). As a measure of financial performance, we obtained the Return on Equity (ROE) over the previous 12 months of those 183 companies from the COMPUSTAT database. ROE is an accounting based measure from corporations' balance sheet, which is obtained by dividing Net Income after Tax by Shareholder Equity. ROE is supposed to express a firm's efficiency in generating profits and is therefore generally used as an indication of how profitably a company has operated over a year. Participants were informed in detail

about the measures for social and environmental performance.

To make the prediction task as intuitive as possible for our participants, the financial performance and the social performance were given as a rank among the entire set of 183 companies. A low number means a good rank (1st was the best) and a high number a bad rank (183rd was the worst). Ranks are indicative of how good a company is compared to the other companies. This allowed our participants to consider the relationship between social performance and financial performance independently from factors that affected the economy as a whole. To underline this point, we did not indicate the precise years for which the participants were making their predictions.

For the prediction game, we selected 7 of the 183 companies. The selection procedure for the seven companies was as follows: we chose companies based on their social and financial performance at time T. To avoid a ‘regression to the mean’ effect³, we chose companies whose rank was closest to the middle rank for the financial performance, the dimension which participants had to predict. At the same time, these companies should be as extreme as possible on social performance, the dimension that participants did not predict. We selected seven companies that matched our criteria. Their financial performance ranks were in the middle (between 78 and 111), and their social performance ranks were split: four of the companies had a high rank (between 168 and 183) and three of the companies had a low rank (between 1 and 17). This procedure allowed us to investigate if, and in which way, the

³ This effect describes a situation where a variable is measured multiple times. When the first measurement of the variable returns an extreme value, the second measurement will tend to be closer to the variable’s true mean. As a consequence, had we given our participants companies with extreme ranks at time T (i.e. close to 1 or 183) for the dimension they had to predict (i.e. financial performance), and had they predicted a rank closer to the mean rank at time T+2, then we would not have been able to separate two possible explanations for such predictions: (1) Beliefs concerning the link between CFP and CSP that allow us to test our hypotheses, and (2) correct intuitions concerning statistical regression towards the mean.

information about social performance influenced the prediction of financial performance.

Participants were given the rank for financial performance and the rank for social performance at time T and they predicted the financial performance at time T+2 (2 years later). To calculate our main dependent measure, we estimated how the given social performance ranks influenced the predicted financial performance ranks across all the 7 predictions, while controlling for the influence of the given financial performance ranks. More specifically, we fitted a linear regression for each participant separately, with the predicted financial performance rank as the dependent variable and the given social performance rank as independent variables, while the given financial performance rank was used as a control variable. A participant's coefficient for the effect of the given social performance rank on the predicted financial performance rank is our measure of this participant's belief in the CSP-CFP link. This coefficient measures the expected change in the predicted financial performance rank when the given social performance changes by one rank. A positive coefficient indicates that the participant predicted a positive association between social performance at T and financial performance at T+2, whereas a negative coefficient indicates that the participant predicted a negative association.

Participants predicted the financial performance of the companies at the point T+2, which was between 2004 and 2006. By comparing their predicted rank with the actual ranks at that point in time, we evaluated the accuracy of their predictions. The ten most accurate participants were awarded 50 Swiss Francs (ca. 46.5 USD) each. We introduced this incentive to increase participants' motivation and to counteract potential social desirability biases – i.e. that the participants would predict a stronger link between social and financial performance than they believe actually exists. In this

incentive scheme, participants maximize their chances of winning the 50 Swiss Francs by stating their true beliefs about how social performance impacts on future financial performance.

Fair market ideology. To measure the extent to which participants engage in justification of the market economy system, we used the Systemic Fair Market Ideology Scale. This scale was developed and tested by Jost and colleagues, who aimed to measure individual differences regarding the ideological tendency “to believe that the existing free market system is fair, ethical and legitimate” (Jost et al., 2003: 66). Example items are: “In many markets, there is no such thing as a true “fair” market price (reverse coded)” and “In free market systems, people tend to get the outcomes that they deserve”. This scale has been shown to strongly correlate with other general and economic system justification scales (Jost et al., 2003a). Participants answered on an 11-point scale ranging from -5 (completely unfair) through 0 (neither fair nor unfair) to 5 (completely fair). The 15 items were averaged into a fair market ideology score (Cronbach’s alpha in this sample = 0.69, $M = -.20$, $SEM = 0.16$).

Demographics and additional measures. Because prior research has found a relationship between the political orientation of CEOs and their companies’ CSR engagement and has explained this finding by arguing that it is driven by CEOs’ belief in the business case for CSR, (Chin et al., 2013), we included executives’ political orientation as control variables (on two 7-point scales, one ranging from liberal to conservative and one ranging from left-wing to right-wing).

In addition, we were interested in exploring whether the beliefs about the CSP-CFP link differed systematically between executives with different demographic characteristics. We therefore included several demographic control variables, which are regularly included in upper echelons research. These demographic variables were

the number of years of work experience, level of education (with the categories: primary school, secondary school, completed high school, undergraduate degree, graduate degree, PhD, and other) and their rank in the organizational hierarchy (in terms of number of hierarchy levels below the CEO).

Results and Discussion Study 1

Correlations and descriptive statistics for study 1 are summarized in Table 1. Participants' belief in the CSP-CFP link is significantly correlated with participants' fair market ideology ($r = 0.36, p < 0.05$). As can be seen in Table 2, when regressing fair market ideology on the belief in the CSP-CFP link, the coefficient of fair market ideology remains significant ($b = 0.06, SEM = 0.02, t = 3.07, p < 0.05$) even after controlling for gender, age, education level, political orientation, work experience and the hierarchy distance to the CEO. This analysis is robust to the exclusion of the control variables. Thus, we find support for Hypothesis 1: individuals' belief in a positive link between CSP and CFP is correlated with their ideological tendency to justify the market economy system.

 INSERT TABLE 1 ABOUT HERE

 INSERT TABLE 2 ABOUT HERE

STUDY 2: EDUCATIONAL BACKGROUND, FAIR MARKET IDEOLOGY AND BELIEFS ABOUT THE CSP-CFP LINK

Sample

We chose a student sample for study 2 in order to exploit the natural variation in exposure to reasoning about the market economy system in different educational backgrounds, which allows us to test our hypothesis 2. 124 students from a large

Swiss university participated in this study during class. 22 participants were excluded because they did not complete the questionnaire respectively did not understand the instructions or the incentive structure (i.e. they failed to correctly answer control questions). We targeted students from two groups: business, economics and law as well as sociology, psychology and philosophy. 48 of the participants were women (47.6%), 53 (50.5%) were men, and one participant did not give gender information. The average age was 22.54 ($SD = 2.35$) years and the participants had studied for an average of 3.33 ($SD = 0.97$) years.

Measures

Beliefs about the link between CSP and CFP. Participants played a prediction game similar to the one in study 1 (described above). The only difference was that participants made 10 instead of 7 predictions. We calculated the variable measuring the belief in the CSP-CFP link in the same way as in study 1.

Robustness check for the way financial performance is measured. In the prediction game, we randomly assigned two different measures of financial performance to participants. The goal of this manipulation was to test whether our results are sensitive to the type of financial performance used to determine the companies' financial performance ranks. About half of the students ($N = 53$) received rank-information based on Return On Equity (ROE), the same as our participants in study 1. The remaining students ($N=49$) received rank-information based on the relative change in share price over the past 12 months. Contrary to ROE, this measure is based on the valuation of the company by investors in the stock market. We expected similar results from both groups.

Participants' educational background. To measure participants' exposure to reasoning about the market economy system, participants reported their field of study.

Because participants' belief in the CSP-CFP link could potentially also be influenced by knowledge about the CSP-CFP link acquired in a business ethics or an ethics course, we also asked participants whether they followed such a course.

Fair market ideology. As for study 1, participants completed the Systemic Fair Market Ideology Scale, which was developed and tested by Jost and colleagues (2003a) (Cronbach's alpha in this sample = 0.70, $M = -0.21$, $SEM = 0.11$).

Results and Discussion Study 2

Correlations and descriptive statistics are summarized in table 3.

INSERT TABLE 3 ABOUT HERE

Table 4 summarizes the results from our mediation analysis and Figure 2 illustrates these results graphically. In the indirect path, fair market ideology is significantly greater for participants studying business, economics or law ($a = 1.02$, $p < 0.001$) than for other participants. Holding the academic field constant, an increase in fair market ideology of 1 on an 11-point scale increases the belief in the CSP-CFP link by ($b = 0.043$, $p < 0.05$). For the direct path, studying business, economics or law is positively associated with the belief in the CSP-CFP link ($c = 0.105$, $p < 0.05$).

To test for the hypothesized mediation, we followed the bootstrap procedure proposed by Preacher and Hayes (2008; 2004; see also Zhao, Lynch Jr., & Chen, 2010). The mean indirect effect from the bootstrap analysis is positive and significant ($a \times b = 0.046$; $p < 0.05$) with a 95% confidence interval not including 0 (0.0012 to 0.0904), which indicates a significant effect. When the mediator is included in the regression, the direct effect is no longer significant ($c' = 0.061$, $p = 0.187$). Since $a \times b$ is significant and c' is not, the effect can be categorized as an indirect only mediation. The results from this mediation analysis support our hypothesis 2, namely

that fair market ideology mediates the relationship between participants' educational background and their belief in the CSP-CFP link.

Our results are not sensitive to the way financial performance is defined: we did not find a significant effect of the experimental manipulation of the financial performance measure (ROE vs. relative change in the share price), neither overall nor as a control variable in all the reported results. Our results are also not sensitive to age and gender and whether participants have followed a course in ethics or a course in business ethics as control variables. Thus, knowledge about the CSP-CFP link that participants could have acquired during ethics or business ethics courses seems not to affect our results.

INSERT TABLE 4 ABOUT HERE

INSERT FIGURE 2 ABOUT HERE

STUDY 3: EXPERIMENTALLY ESTABLISHING THE CAUSAL LINK BETWEEN FAIR MARKET IDEOLOGY AND THE BELIEF IN THE CSP-CFP LINK

The purpose of study 3 is to establish that the link between system justification of the market economy system and the beliefs about the CSP-CFP link is causal and in the proposed direction. Specifically, we hypothesized that we could prompt participants to believe in a stronger (weaker) link between CSP and CFP by making fair market ideology more or less salient. Experimentally manipulating the accessibility of fair market ideology, and measuring the effect of this manipulation on

the belief in the CSP-CFP link allows for excluding alternative explanations, such as reverse causality or omitted variables.

Sample

We recruited 95 business and economics students from a large Swiss university during class. 20 participants were excluded because they did not complete the questionnaire respectively did not understand the instructions or the incentive structure (i.e. they failed to correctly answer control questions). 60 of the participants were women (81%), 14 (19%) were men, and one participant did not give gender information. The average age was 21.04 ($SD = 1.70$) years and all participants were in the second year of their bachelor studies.

Experimental design

The experiment consisted of two parts. In the first part, we manipulated the salience of system justification by inducing participants to conceive of the market economy as either just or unjust. In the second part, participants played the same prediction game as in study 2. To manipulate participants, we adopted an unscramble sentences procedure from Feinberg and Willer (2001). We presented participants a set of scrambled sentences and instructed participants to unscramble these sets of words to form coherent sentences. Participants were randomly assigned to three conditions, in which they were presented different sets of sentences. In the high system justification condition, eight unscrambled sentences described the market economy system as just and fair. These sentences were taken from the systemic fair market ideology scale by Jost et al. (2003a). Example items were “The free market system is a just system” and “In free market systems, people tend to get what they deserve”. These scrambled sentences were mixed with six filler sentences, which were not associated with the topic. In the low system justification condition, participants were

presented eight scrambled sentences that described the market economy system as unjust and unfair (e.g. “The free market system is an unjust system”, “A free market does not guarantee that people get what they deserve”) and the six filler items. In the control condition, participants only had to unscramble the six filler items.

Measures

Belief about the link between CSP and CFP. Participants played a prediction game similar to the one in study 2 (described above). We calculated the variable measuring the belief in the CSP-CFP link in the same way as in study 1 and study 2.

Fair market ideology. As a manipulation check, participants completed the Systemic Fair Market Ideology Scale at the end of the questionnaire (Cronbach’s alpha in this sample = 0.66, $M = -0.68$, $SEM = 0.13$). An ANOVA with experimental condition as the independent variable and fair market ideology as the dependent variable reveals that there is a main effect for the experimental condition on fair market ideology ($F(2,72) = 4.81$, $p < 0.05$), implying that the manipulation indeed worked.

Results and Discussion Study 3

The results, detailed in figure 3, provide additional support for our hypothesis 1. An ANOVA with experimental condition as the independent variable and the belief in the CSP-CFP link as the dependent variable reveals that there is a main effect for the experimental condition on the belief in the CSP-CFP link ($F(2,72) = 3.13$, $p < 0.05$). The belief in the CSP-CFP link for participants in the high system justification condition is significantly higher than for participants in the low system justification condition (High system justification condition: $M = 0.257$, $SEM = 0.039$; Low system justification condition: $M = 0.133$, $SEM = 0.035$, $t(49) = 2.35$, $p < 0.05$). Thus, we find additional support for Hypothesis 1, namely that there is a link between fair

market ideology and the belief in a positive link between CSP and CFP. The belief in the CSP-CFP link for participants in the control condition containing only the filler sentences is not significantly different from the belief in the CSP-CFP link for participants in the high system justification condition (control condition: $M = 0.241$, $SEM = 0.042$, $t(46) = 0.27$, $n.s.$) and marginally significantly different from participants in the low system justification condition ($t(49) = 1.98$, $p = 0.054$). This indicates that being assigned to the low system justification condition had a larger effect than being assigned to the high system justification condition. A possible explanation for this could be that our sample for study 3 consisted solely of business and economics students. As our results from study 2 indicate, business and economics students justify the market economy to a higher degree than other samples and it may therefore be more difficult to even further increase their levels of system justification.

 INSERT FIGURE 3 ABOUT HERE

STUDY 4: FAIR MARKET IDEOLOGY, THE BELIEF IN THE CSP-CFP LINK AND CSR ENGAGEMENT

Study 4 was designed to investigate the effect of both the belief in the CSP-CFP link and fair market ideology on CSR engagement. While we expect that fair market ideology has an indirect positive effect on CSR engagement via the belief in the CSP-CFP link (hypothesis 3), we also hypothesized that fair market ideology has an indirect negative effect on CSR engagement via insensitivity to the ethical dimension of corporate activities (hypothesis 4). To test hypothesis 3 and 4, we

developed a scenario study. We use two scenarios to ensure that our measure of CSR engagement is not specific to a single scenario. The scenarios read as follows:

Scenario A: A foods company, A, produces an energy drink that contains large amounts of sugar. Recently, a health organization criticized A, arguing that the high amounts of sugar in the drink contribute to the problem of obesity by leading consumers to gain weight or by preventing them from losing weight. Nevertheless, company A decided to continue selling the high sugar energy drink without taking any action to address obesity.

Scenario B (adapted from Paharia, Kassam, Greene, & Bazerman, 2009): A pharmaceutical company B produces a cancer drug that yields minimal profits. The fixed costs are high and the market is limited. But the patients who use the drug really need it. The production cost for one pill is 2.50\$ and, so far, company B has sold the drug at a price of 3\$ per pill. Recently, company B decided to raise the price of the drug to 9\$. This decision was taken after market research had shown that up to a price of 9\$, company B would be able to sell the same amount of pills than if the price remained at 3\$. However, raising the price to 9\$ likely leads to some patients experiencing financial difficulties.

Sample

For study 4, we recruited participants from the US to test our theoretical framework not only with European participants, but also with individuals from another world region with a market-based economy. We did so by recruiting 153 US-American participants on an online platform where people can participate in academic studies for payment. Five participants were dropped from the analysis because they either participated more than once and/or their answers were rushed (the fastest 2.5%,

who took 8 minutes or less to complete the full questionnaire)⁴. This resulted in a final sample of 148 participants (60 women, age: $M = 31.4$, $SD = 9.1$).

Measures

Insensitivity to the ethical dimension of business. To evaluate participants' insensitivity to the ethical dimension of corporate activities, they responded to the following questions after reading the respective scenario. Scenario A: "How unethical do you think was company A's decision not to take any action to address obesity?" Scenario B: „, How unethical do you think was company B's decision to raise the price of the drug to \$9?" They responded on a scale ranging from 7 (not at all unethical) to 1 (extremely unethical , see Paharia, Kassam, Greene & Bazerman, 2009 for a similar measure).

Tendency for CSR engagement. After being shortly reminded of the content of the scenario, participants responded to multiple questions for each scenario.

For scenario A, participants were prompted to imagine that they were appointed as the CEO of company A. They were asked: "How likely is it that you would decide to engage in the following actions?" They responded to the following four items: "Continue with business as usual"; "Make this issue a priority for your company's department heads"; "Support the government to draft legislation that would require warning labels for beverages containing high amounts of sugar"; "Print large warning labels on the drink's package highlighting the large amounts of sugar and its potential consequences". For each item, participants responded on a 7 point-scale ranging from "definitely not" (-3) to "definitely" (3). We averaged the four answers into a 'tendency for CSR engagement' scale (Cronbach's $\alpha = 0.86$, $M = -0.34$, $SEM = 0.13$).

⁴ Our results remain substantially unchanged when we include the fastest 2.5% of the participants.

For scenario B, participants were prompted to imagine that they were appointed as the CEO of company B when the company was contemplating to raise the price. They were asked the following two questions: “Where would you have set the price for one pill?” Participants responded on a 9 point-scale ranging from \$1-\$9 ($M = 4.32$, $SEM = 0.12$). “How likely is it that you would support a law that would require companies like A to distribute free drugs to poor patients?” Participants responded on a 7 point-scale ranging from “definitely not” (-3) to “definitely” (3) ($M = 0.51$, $SEM = 0.15$). We averaged the two answers into a ‘tendency for CSR engagement’ score (Reliability = 0.56, based on the Spearman-Brown formula, which is preferred over Cronbach’s alpha to assess the scale reliability for two-item scales, (Eisinga, Te Grotenhuis, & Pelzer, 2013). Based on the reliability of our two items, the Spearman-Brown formula predicts an alpha of 0.72 if we had four instead of two items).

Beliefs about the link between CSP and CFP. Participants played the same prediction game that was used in study 2 and 3 (making 10 predictions). As in the classroom settings, we incentivized participants to make accurate decisions. Specifically, the 25% of the participants who make the most accurate predictions received a bonus of \$1.50, and the second most accurate 25% of the participants received a bonus of \$0.50.

Fair market ideology. As in studies 1 and 2, participants completed the Systemic Fair Market Ideology Scale developed and tested by Jost and colleagues (Cronbach’s alpha in this sample = 0.88, $M = 0.11$, $SEM = 0.13$)

Social desirability. To account for the effect of social desirability, we asked participants to complete the sincerity subscale from the honesty-humility scale, which

is part of the HEXACO inventory, developed by Ashton and Lee (2009). (Cronbach's alpha in this sample = 0.78).

Demographics and additional measures. Participants were asked for their gender and age. As in study 1, we also included participants' political orientation as a control variable (on two 7 point scales, one ranging from liberal to conservative and one ranging from left-wing to right-wing), as well as their level of education (with the categories: primary school, secondary school, completed high school, undergraduate degree, graduate degree, PhD). Furthermore, we explore whether our results are influenced by whether participants are active in the labor market . 126 (85%) of our participants were employed for wages or self-employed, and 22 were out of work, homemakers, students or unable to work.

Results and Discussion Study 4

Correlations and descriptive statistics for study 4 are summarized in table 5.

INSERT TABLE 5 ABOUT HERE

We tested hypothesis 3 and 4 with a separate mediation analysis for each scenario. For these analyses, we followed the recommendations from Preacher and Hayes (2008) for mediation analysis with multiple mediators. In line with these recommendations, we estimated three regression equations simultaneously, using the seemingly unrelated regression method (Zellner & Huang, 1962). In all regressions, we include gender, age, political orientation, social desirability, level of education and labor market participation as control variables. Figure 4 illustrates the different paths in the mediation analysis; table 6A summarizes the results from the mediation analysis for scenario A, table 6B for scenario B.

INSERT FIGURE 4 ABOUT HERE

INSERT TABLE 6A ABOUT HERE

INSERT TABLE 6B ABOUT HERE

First, we regressed the independent variable, fair market ideology, on the first mediator, belief in the CSP-CFP link. This path (*a1*) corresponds to the effect of fair market ideology on the belief in the CSP-CFP link that we established in studies 1-3. In the present sample, this path is marginally significant and has the same coefficient in both scenarios ($B = 0.02$, $p = 0.084$). Second, we regressed the independent variable, fair market ideology, on the second mediator, insensitivity to the ethical dimension of corporate activities (*a2* path). In both scenarios, fair market ideology significantly increases this ethical insensitivity (Scenario A: $B = 0.26$, $p = 0.014$; Scenario B: $B = 0.42$, $p < 0.005$). Third, we regressed both mediators and the independent variable on the dependent variable, tendency for CSR engagement (path *b1* and *b2*). In both scenarios, the belief in the CSP-CFP link (Scenario A: $B = 1.22$, $p = 0.005$; Scenario B: $B = 1.2$, $p = 0.005$) and insensitivity to the ethical dimension of corporate activities (Scenario A: $B = -0.56$, $p < 0.005$; Scenario B: $B = -0.35$, $p < 0.005$) significantly affect the tendency for CSR engagement.

The bootstrap analysis reveals that in both scenarios, the indirect effect from fair market ideology on tendency for CSR engagement mediated by the belief in the CSP-CFP link (Indirect *a1b1* path) is positive and significant (95% bias corrected CI does not include 0: Scenario A: 0.025 [0.002, 0.068]; Scenario B: 0.024 [0.0029, 0.071]), thereby supporting our hypothesis 3. The bootstrap analysis also reveals that in both scenarios, the indirect effect from fair market ideology on tendency for CSR

engagement mediated by insensitivity to the ethical dimension of corporate activities (Indirect *a2b2* path) is negative and significant (95% bias corrected CI does not include 0: Scenario A: -0.146 [-0.31, -0.006]; Scenario B: -0.147 [-0.24, -0.077]), thereby confirming our hypothesis 4.

The total indirect effect of fair market ideology on tendency for CSR engagement (the sum of the two indirect effects reported above) is negative in both scenarios (it fails to reach statistical significance in scenario A: 95% bias corrected CI includes 0: -0.122 [-0.28, 0.023]; but it is significantly negative in scenario B: 95% bias corrected CI does not include 0: -0.122 [-0.22, -0.042]). This means that the small positive indirect effect on tendency for CSR engagement, which stems from the path via the belief in the CFP-CSP link, is more than offset by the larger negative indirect effect on tendency for CSR engagement, which stems from the path via the increased insensitivity to the ethical dimension of corporate activities.

GENERAL DISCUSSION

Participants in four studies played a prediction game in which they predicted corporate financial performance (CFP), based on past corporate social performance (CSP). These predictions were used to measure participants' belief in the link between CSP and CFP or, stated differently, in the business case for CSR. Our results provide consistent support for our arguments: the belief in the business case for CSR is driven by individuals' fair market ideology, defined as a positive ideological stance over the market economy system. Specifically, we find in study 1 that executives' belief in the CSP-CFP link was correlated with their fair market ideology. In study 2, we bolstered this finding with a student sample including students from different academic disciplines. We had theorized that academic disciplines provide a natural individual-

level variation for the extent to which individuals hold a fair market ideology. As hypothesized, students with an educational background in business, economics or law believed more strongly in a positive link between CSP and CFP than students from other academic disciplines. Furthermore, the relationship between educational background and the belief in a positive link between CSP and CFP was mediated by students' fair market ideology. This means that students of business, economics or law subscribe more strongly to a fair market ideology. In turn, fair market ideology explains their belief about the link between CSP and CFP. In study 3, we experimentally established the causal link between fair market ideology and the belief in the CSP-CFP link: participants for whom we made fair market ideology more salient also believed in a stronger positive CSP-CFP link than participants for whom we made fair market ideology less salient. In study 4, we looked at the extent of CSR engagement as a dependent variable. As hypothesized, we found two competing indirect effects from fair market ideology on CSR engagement: a positive indirect effect mediated by the belief in the CSP-CFP link, and a negative indirect effect mediated by insensitivity to the ethical dimension of corporate activities. The positive indirect effect is smaller and cancelled out by the larger negative indirect effect. Thus, taken together, a negative indirect effect prevails. These findings support our theoretical framework depicted in figure 1. They illustrate that while the belief in the CSP-CFP link leads to higher CSR engagement, it comes with strings attached in the form of fair market ideology: fair market ideology does not only lead individuals to believe in the CSP-CFP link, but it also leads them to be less sensitive to the ethical dimension of corporate activities, which, in turn, decreases individuals tendency to engage in CSR.

Implications

In what follows, we highlight the varied implications of the present paper. Figure 5 depicts the relationships of the constructs we have investigated in this article.

INSERT FIGURE 5 ABOUT HERE

The three boxes on top of figure 5, biographical proxy, belief in the CSP-CFP link and CSR engagement, are the theoretical elements and their proposed relationships in recent upper echelons research in the area of CSR (Chin et al., 2013). The two boxes at the bottom, fair market ideology and insensitivity to the ethical dimension of corporate activities are the new elements we have brought from system justification theory. The results from our four studies indicate that we would draw highly misleading conclusions from figure 5 if we excluded fair market ideology and ethical insensitivity from it. For instance, if our knowledge was restricted to the relationships among the three boxes in the upper part of figure 5, we would contend that selecting executives with an educational background in business, economics or law would drive up CSR engagement, because their educational background leads them to believe more strongly in the CSP-CFP link (which then leads to CSR engagement). Only when we also consider the psychological underpinnings derived from system justification theory, can we see that selecting executives with an educational background in business economics and law will not drive up a firm's CSR engagement – even though executives with such an educational background believe in the business case for CSR. This is so, because the relationship between educational background and the belief in the CSP-CFP link is driven by fair market ideology. As the results from our study 4 show, fair market ideology, impacts on CSR engagement via two contradictory paths: it has an indirect positive impact on CSR engagement via

the belief in the CSP-CFP link; but it also has an indirect negative impact on CSR engagement via ethical insensitivity. Most crucially, this negative impact via ethical insensitivity is stronger than the positive impact via the belief in the CSP-CFP link (see our study 4). Therefore, rather than *driving up* CSR engagement, our results suggest that selecting executives with an educational background in business, economics or law would actually *decrease* the company's CSR engagement.

This implication vividly illustrates the importance for upper echelons research to heed Hambrick's (2007) call to study executive characteristics (in our case the belief in the CSP-CFP link) not only as independent variables, but also as dependent variables and thereby to enhance our understanding on where these characteristics come from (in our case from fair market ideology). It also illustrates the importance of inferring executive characteristics not only through biographical proxies, but also via more precise measures (Carpenter et al., 2004; Lawrence, 1997) because the rather distant biographical proxies might not adequately capture the underlying hypothesized constructs (Hambrick, 2007; Hambrick et al., 1993). Indeed, only because we have developed a prediction game to measure the belief in the CSP-CFP link as precisely as possible could we investigate the complex web of relationships illustrated in Figure 5. The knowledge about these relationships, in turn, allowed us to draw the surprising conclusion that executives with an educational background in business, economics or law would likely decrease their companies' CSR engagement despite the fact that they believe in the business case for CSR.

Another implication of our studies is that, while the belief in the CSP-CFP link has a statistically significant effect on CSR engagement, this effect is rather small and is easily outweighed by other psychological factors (in our case by ethical insensitivity). The belief in the CSP-CFP link thus seems less important to explain

why companies engage in CSR than existing research assumes. This should resound with some of the evidence we have on the tensions that often arise between profitability and social responsibility in the reality of firms' everyday life (Crane, Palazzo, Spence, & Matten, 2014). For instance, CSR engagements might be in conflict with companies' core activities, which are the drivers of profit-generation (Banerjee, 2008; Scherer & Palazzo, 2007, 2011). Thus, many firm strategies to generate superior profits – such as outsourcing labor- and energy-intensive production processes to countries where social and environmental regulations lag behind developed-country standards – are implicit signs that social responsibility and profits do not always go hand in hand (Lee, Plambeck, & Yatsko, 2012; Strike et al., 2006; Surroca, Tribó, & Zahra, 2013; Swartz, 2010). In this sense, executives who believe in the business case for CSR may indeed be looking for opportunities to engage in CSR where this makes business sense (Pless et al., 2012), but they will ignore opportunities to engage in CSR where this is not or less clearly the case.

Our results also have implications for the many studies that have aimed at answering the question whether there is a link between CSP and CFP at the company level (for extensive reviews, see Allouche & Laroche, 2005; Margolis & Walsh, 2003; Orlitzky et al., 2003; vanBeurden & Gössling, 2008). Much of the research in that area either implicitly or explicitly assumes that executives do a priori not believe in the business case for CSR and that scientific evidence could convince them of the contrary (Margolis et al., 2009; Orlitzky et al., 2003; vanBeurden & Gössling, 2008). Yet, the present article shows that a majority of executives already believes in this link, and that this belief comes 'with strings attached' to fair market ideology. And these strings curb the effect of the belief in the business case for CSR on CSR engagement.

Limitations and Future Research

There are several limitations to this paper that we suggest could be addressed in future research. First, our studies took place in a controlled environment (e.g., in the classroom), and in study 4 we used a scenario-based approach. This allowed us to take clean measurements and even to exploit random assignment to make causal claims, but it might limit the external validity of our findings. At the same time, the external validity for the relationship between executive characteristics and CSR engagement has already been established in prior research (Chin et al., 2013; Lewis et al., 2014; Petrenko et al., 2015), and our goal was therefore to understand the underlying psychological antecedents of executive beliefs. Furthermore, we have established our main finding with a sample of experienced executives (study 1), and have developed an innovative methodology to measure their beliefs reliably. Nevertheless, further investigations, using for instance field data to measure actual CSR engagement, would strengthen the generalizability of our results. An ideal study would follow executives and aim at detecting changes in their fair market ideology, and then analyze whether such changes would manifest themselves in their belief about the business case for CSR, in their sensitivity to the ethical dimension of corporate activities and ultimately in their companies' CSR engagements.

Second, we focused on one specific reason why executives could engage in CSR: the belief in the business case of CSR. We investigated this belief in detail, uncovered its psychological underpinnings, and demonstrated how this belief – and its antecedents – influence CSR engagement. Of course, executives might pursue CSR activities for other reasons than the belief in the CSP-CFP link. Such reasons include feelings of accountability towards different stakeholders (Pless et al., 2012), general

ethical commitment (Muller & Kolk, 2010) or intrinsic motivation to do good (Rupp et al., 2011). Future research could look simultaneously at such intrinsic reasons for CSR engagement and the belief in the CSP-CFP link. It would be interesting to compare their respective effect on CSR engagement, and to look at potential interdependencies and interactions. The belief in the CSP-CFP link could, for instance, diminish executives' sense of autonomy. When they believe that social performance increases financial performance, CSR activities might seem more like a strategic necessity and less like an effort they personally decided to provide. In this case, self-determination theory (Ryan & Deci, 2000) would predict that the intrinsic motivation of executives for CSR will decrease: believing that there is an extrinsic reward could lead to a crowding out of intrinsic motivation for CSR.

Third, we focused in our article on beliefs, which are by definition at the level of the individual executive. As executives usually make decisions in teams (Carpenter et al., 2004; Hambrick, 2007; Hambrick & Mason, 1984), team members might not only be diverse in terms of their beliefs, but also in terms of their educational background, their fair market ideology and their sensitivity to the ethical dimension of corporate activities. Potentially, such diversity could boost CSR engagement, as diverse teams might include both members who are sensitive to the ethical dimension of corporate activities, and those who believe that it pays to engage in CSR.

Conclusion

We investigated executives' belief in the business case for CSR as well as its psychological underpinnings. We find that the belief in the business case is grounded in executives' fair market ideology. At the same time, our results show that fair market ideology also leads individuals to be less sensitive to the ethical dimension of

corporate activities. These two findings reveal an important tension: on the one hand, individuals who believe in the CSP-CFP link have a tendency to enhance their companies' CSR-activities. On the other hand, ethical insensitivity decreases their tendency to engage in CSR. The tension thus arises from the fact that two competing factors (belief in the CSP-CFP link and ethical insensitivity) have their origin in the same underlying belief system (fair market ideology). We therefore analyzed how these two competing factors *concurrently* impact on individuals' tendency to engage in CSR activities. We find that fair market ideology has a positive indirect effect on CSR engagement via the belief in the CSP-CFP link, which is, however, outweighed by a larger negative indirect effect via ethical insensitivity. The belief in the business case for CSR thus comes with strings attached: it is grounded in fair market ideology, which, in turn, decreases individuals' tendency to engage in CSR. This finding leads us to caution against the almost universal assertion that a stronger belief in the business case by executives will readily lead to enhanced CSR engagements.

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TABLE 1
Correlations and Descriptive Statistics from Study 1

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
1. Belief in the CSP-CFP link	0.08	0.15								
2. Fair market ideology	-0.2	1.12	0.36*							
3. Gender	0.74	0.44	0.14	0.12						
4. Age	36.87	5.08	-0.09	-0.19	-0.04					
5. Political orientation (liberal - conservative)	-1.23	1.13	0.16	-0.02	-0.12	0.02				
6. Political orientation (left - right)	0.17	1.27	-0.07	0.27	0.27	-0.11	-0.14			
7. Work experience	11.26	4.82	-0.12	-0.17	-0.07	0.83***	0.00	0.01		
8. Level of education	4.96	0.91	-0.04	0.11	-0.03	-0.05	-0.20	0.04	-0.16	
9. Hierarchical distance to CEO	2.64	1.9	-0.23	0.14	-0.42**	0.07	0.07	-0.07	-0.03	0.07

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

$N = 47$.

TABLE 2**Results of Regression Analysis with the Criterion *Belief in the CSP-CFP link* from Study 1**

Variables	Model 1	Model 2
Constant	0.13 (0.25)	0.13 (0.23)
Gender	0.03 (0.06)	0.003 (0.06)
Age	0.002 (0.009)	0.004 (0.008)
Political orientation (liberal - conservative)	0.02 (0.02)	0.02 (0.02)
Political orientation (left - right)	-0.009 (0.02)	-0.02 (0.02)
Work experience	-0.006 (0.009)	-0.006 (0.008)
Level of education	-0.02 (0.01)	-0.03 (0.01)
Hierarchical distance to CEO	-0.001 (0.03)	-0.008 (0.02)
Fair market ideology		0.06** (0.02)
<i>R</i> - Squared	0.11	0.29
Observations	47	47

Notes: SEM in parentheses, * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

$N = 47$.

TABLE 3
Correlations and Descriptive Statistics from Study 2

Variable	Mean	s.d.	1	2	3	4	5	6	7
1. Belief in the CSP-CFP link	0.12	0.17							
2. Fair market ideology	-0.21	1.09	0.31**						
3. Educational background	0.75	0.44	0.22*	0.49***					
4. Age	22.54	2.35	0.04	0.16	0.05				
5. Gender	0.52	0.5	0.04	0.32***	0.34***	0.00			
6. Course in business ethics	0.24	0.43	-0.04	0.11	0.32***	-0.16	0.21*		
7. Course in ethics	0.14	0.35	0.18	0.02	0.04	-0.01	0.16	0.25*	
8. Financial performance given in ROE or Shareprice	0.48	0.5	-0.05	-0.13	-0.07	0.16	-0.02	-0.21*	-0.21*

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

$N = 102$.

TABLE 4

Mediation Effects of Fair Market Ideology on the Relationship between Educational Background and Belief in the CSP-CFP link from Study 2

Regression paths	<i>B</i>	<i>t</i>	<i>p</i>
Mediation <i>a</i> path (Educational background on Fair market ideology)	1.02	4.31	< .001
Mediation <i>b</i> path (Fair market ideology on Belief in the CSP-CFP link)	0.043	2.36	< .05
Total effect, <i>c</i> path (Educational background on Belief in the CSP-CFP link; No mediator)	0.105	2.45	< .05
Direct effect <i>c'</i> (Educational background on Belief in the CSP-CFP link including Fair market ideology as mediator)	0.061	1.33	0.187
Indirect effect bootstrapped (<i>c - c'</i>) with bootstrapped 95% CI ^a	0.046	[0.0012, 0.0904]	

Notes: *N* = 102, *B* = unstandardised coefficient; *CI* = confidence interval.

^a Because the indirect effect may not be normally distributed, the CI is derived by a bootstrap procedure (here 10000 resamples). As the CI does not include zero, the criterium for mediation has been met (Preacher & Hayes, 2004).

TABLE 5
Correlations and Descriptive Statistics from Study 4

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. Belief in the CSP-CFP link	0.19	0.2												
2. Fair market ideology	0.11	1.58	0.1											
3. Insensitivity to the ethical dimension of corporate activities - Scenario A	5.25	1.9	0.02	0.25**										
4. Tendency for CSR engagement - Scenario A	-0.35	1.58	0.15	-0.21**	-0.71***									
5. Insensitivity to the ethical dimension of corporate activities - Scenario B	3.41	1.88	0.02	0.35***	0.41***	-0.33***								
6. Tendency for CSR engagement - Scenario B	0.09	1.37	0.18*	-0.35***	-0.37***	0.52***	-0.57***							
7. Political orientation (liberal - conservative)	3.32	1.52	-0.1	0.43***	0.19*	-0.22**	0.14	-0.29***						
8. Political orientation (left - right)	3.22	1.57	-0.09	0.43***	0.11	-0.17*	0.13	-0.29***	0.93***					
9. Social desirability	2.93	2.6	0.06	-0.13	-0.11	0.26**	-0.15	0.25**	-0.02	-0.03				
10. Age	31.39	8.1	-0.05	-0.15	-0.03	0.05	-0.03	0.09	-0.01	0.03	0.04			
11. Gender	0.59	0.49	0.04	0.16	0.14	-0.24**	0.16	-0.21**	0.06	0.07	-0.12	-0.16		
12. Level of education	4.33	0.94	-0.1	-0.14	0.06	-0.05	0.08	-0.1	-0.04	-0.03	-0.12	0.12	0	
13. Active participation in the labor market	0.85	0.36	-0.05	-0.06	-0.06	0.02	0	-0.08	0.04	0.05	-0.06	0.1	0.11	0.27***

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
N = 148.

TABLE 6A
Mediation Analysis of Scenario A from Study 4

Regression paths	<i>B</i>	<i>z</i>	<i>p</i>
Mediation <i>a1</i> path (Fair market ideology on Belief in the CSP-CFP link)	0.02	1.73	0.084
Mediation <i>a2</i> path (Fair market ideology on Insensitivity to the ethical dimension of corporate activities)	0.26	2.46	0.014
Mediation <i>b1</i> path (Belief in the CSP-CFP link on Tendency for CSR engagement)	1.22	2.84	0.005
Mediation <i>b2</i> path (Insensitivity to the ethical dimension of corporate activities on Tendency for CSR engagement)	-0.56	-11.89	<0.005
Indirect <i>a1b1</i> path (via Belief in the CSP-CFP link) bootstrapped with bias-corrected bootstrapped 95% CI	0.025 [0.002, 0.068]		
Indirect <i>a2b2</i> path (via Insensitivity to the ethical dimension of corporate activities) bootstrapped with bias-corrected bootstrapped 95% CI	-0.146 [-0.31, -0.006]		
Total indirect effect bootstrapped with bias-corrected bootstrapped 95% CI	-0.122 [-0.28, 0.023]		
Direct effect <i>c'</i> (Fair market ideology on Tendency for CSR engagement including both mediators)	0.21	0.34	0.74

Notes: *N* = 148, *B* = unstandardised coefficient; *CI* = bias corrected confidence interval. Because the indirect effects may not be normally distributed, the CI is derived by a bootstrap procedure (here 10000 resamples). When the CI does not include zero, the criterium for mediation has been met (Preacher & Hayes, 2004).

TABLE 6B
Mediation Analysis of Scenario B from Study 4

Regression paths	<i>B</i>	<i>z</i>	<i>p</i>
Mediation <i>a1</i> path (Fair market ideology on Belief in the CSP-CFP link)	0.02	1.73	0.084
Mediation <i>a2</i> path (Fair market ideology on Insensitivity to the ethical dimension of corporate activities)	0.42	4.06	<0.005
Mediation <i>b1</i> path (Belief in the CSP-CFP link on Tendency for CSR engagement)	1.2	2.83	0.005
Mediation <i>b2</i> path (Insensitivity to the ethical dimension of corporate activities on Tendency for CSR engagement)	-0.35	-7.26	<0.005
Indirect <i>a1b1</i> path (via Belief in the CSP-CFP link) bootstrapped with bias-corrected bootstrapped 95% CI	0.024 [0.0029, 0.071]		
Indirect <i>a2b2</i> path (via Insensitivity to the ethical dimension of corporate activities) bootstrapped with bias-corrected bootstrapped 95% CI	-0.147 [-0.24, -0.077]		
Total indirect effect bootstrapped with bias-corrected bootstrapped 95% CI	-0.122 [-0.22, -0.042]		
Direct effect <i>c'</i> (Fair market ideology on Tendency for CSR engagement including both mediators)	-0.086	-1.34	0.182

Notes: *N* = 148, *B* = unstandardised coefficient; *CI* = bias corrected confidence interval. Because the indirect effects may not be normally distributed, the CI is derived by a bootstrap procedure (here 10000 resamples). When the CI does not include zero, the criterium for mediation has been met (Preacher & Hayes, 2004).

FIGURE 1

Theoretical framework and overview of hypotheses

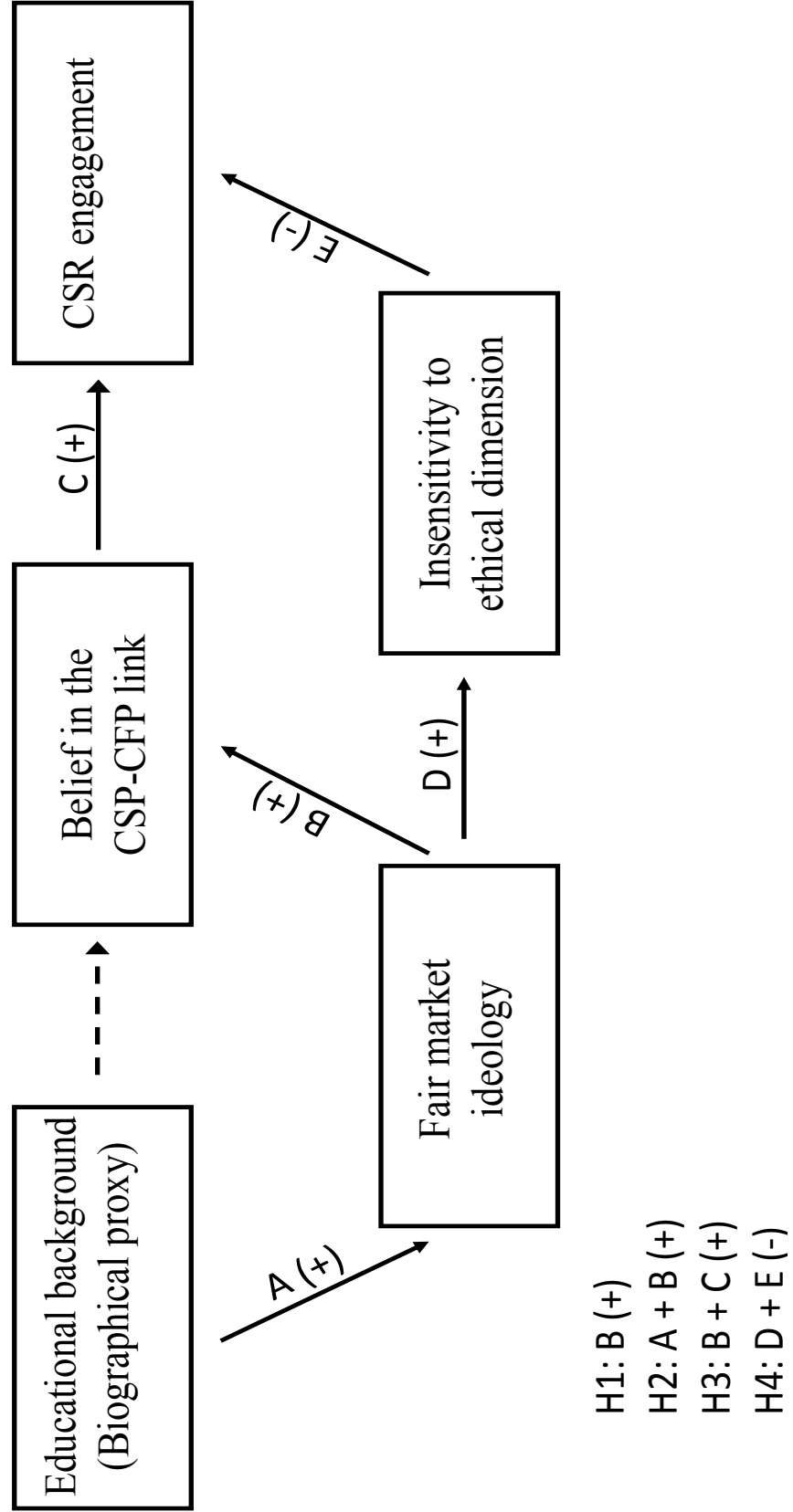


FIGURE 2

Mediation Analysis, Study 2

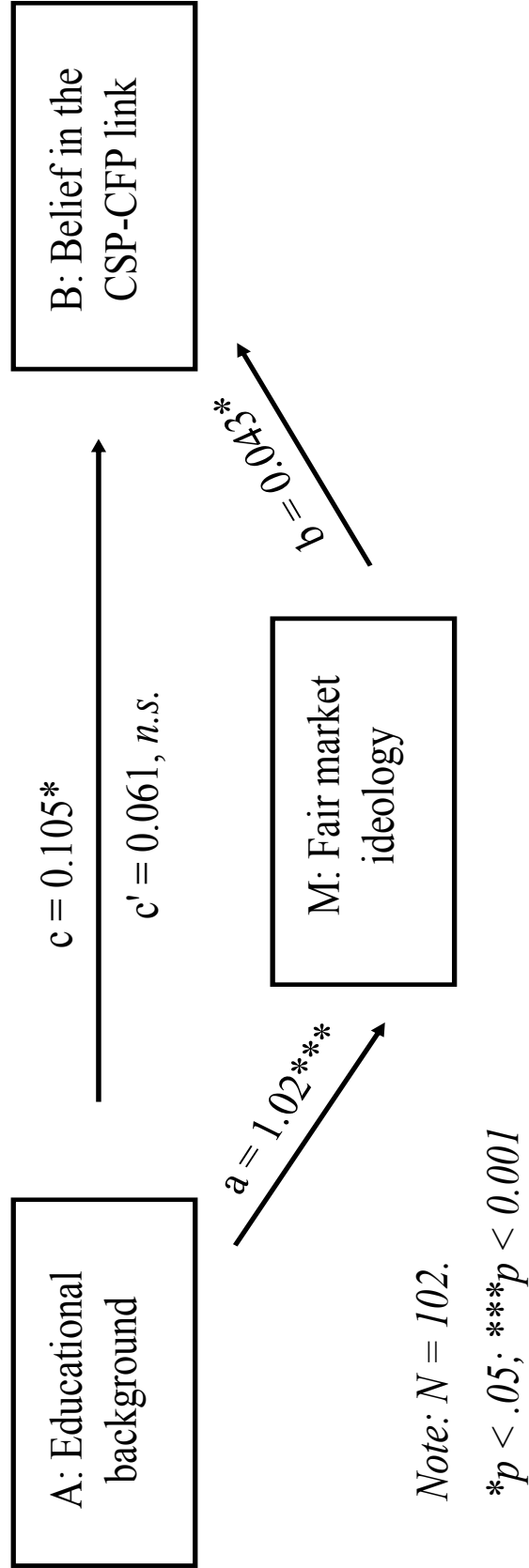


FIGURE 3
Belief in the CSP-CFP link in the three experimental conditions, Study 3

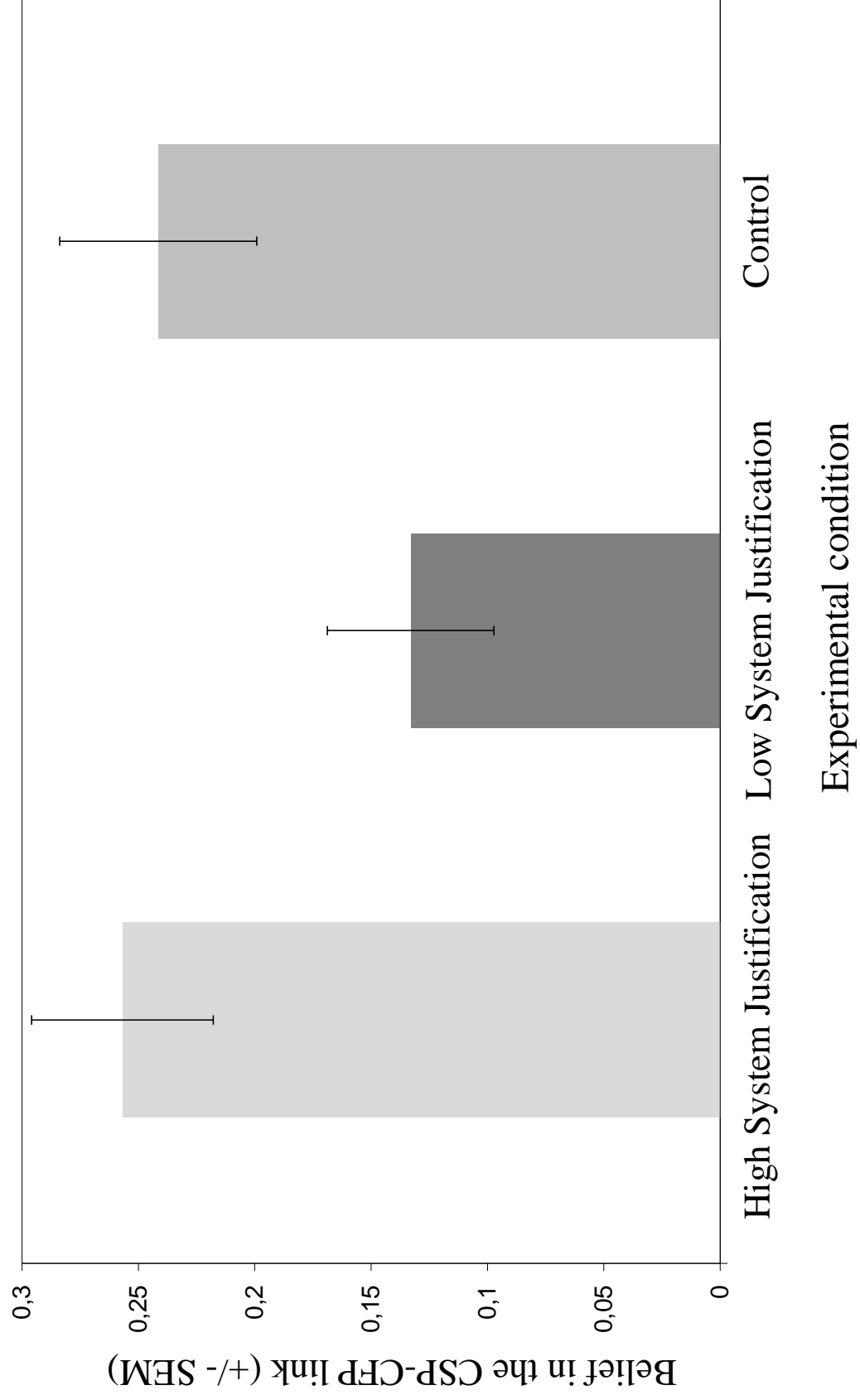


FIGURE 4
Mediation Analysis, Study 4

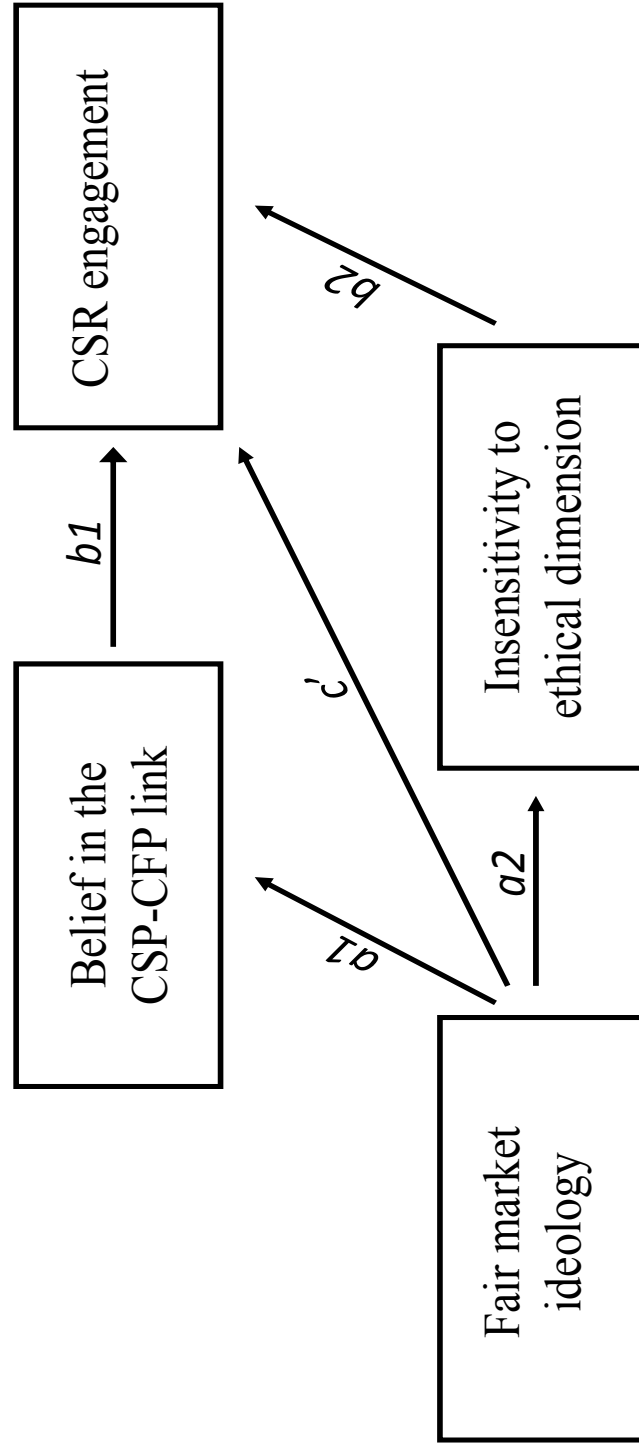
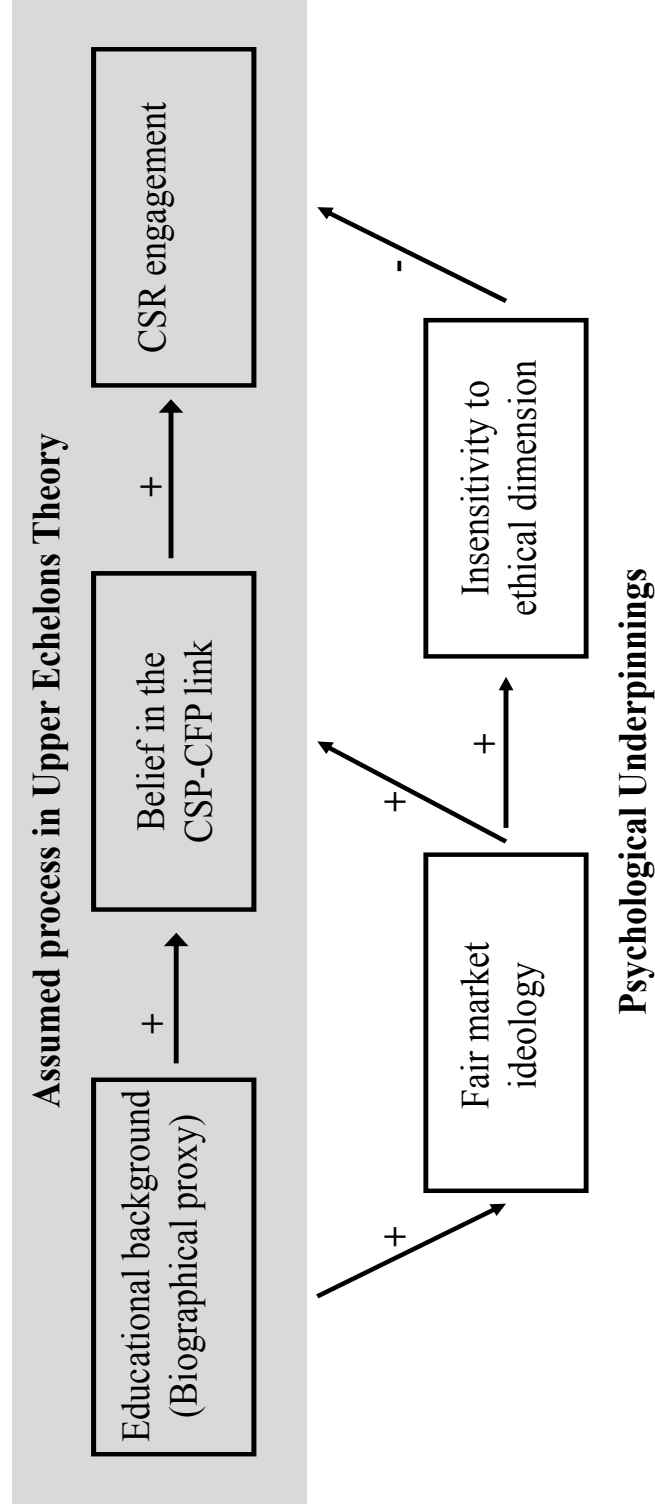


FIGURE 5
Theoretical framework and contribution to Upper Echelons Theory



APPENDIX

Example prediction:

Company A	
Financial performance: Rank 95 out of 183 (among middle rank performers)	Social performance: Rank 180 out of 183 (among the worst 10%)

Your prediction for the financial performance two years later

Rank _____ out of 183