

# **WHEN DOES FINANCIAL RESOURCE SLACK IMPACT SUSTAINABILITY PERFORMANCE IN A DEVELOPING ECONOMY?**

## **ABSTRACT**

While firms continue to commit slack financial resources to sustainability causes, knowledge is lacking on how financial resource slack impacts on sustainability performance under varying conditions of market pressure and political connectedness in developing economies. Primary data gathered from exporting firms in Nigeria shows that increases in financial resource slack is associated with decreases in sustainability performance negative. Additionally, results show that increasing levels of financial resource slack and high levels of market pressure are associated with greater sustainability performance. However, increasing levels of political connectedness weaken the effect of financial slack on sustainability performance.

**KEYWORDS:** Financial resource slack; sustainability; market pressure; political connectedness; developing economy

## INTRODUCTION

Sustainability performance improvement continues to dominate the international business and entrepreneurship literatures and the global media. Policy makers, and local and international activist groups continue to mount pressure on multinational enterprises to balance their economic performance with sustainability performance indicators (Leonidou, Christodoulides, and Thwaites, 2016; Varadarajan, 2014). This development has prompted many business organizations to focus on non-economic (i.e., sustainability) performance metrics to boost their social standing (Melnyk, Sroufe, and Calantone, 2003). To this end, organizations are increasingly using sustainability metrics as a tool to demonstrate moral behaviors that attracts customers and investors (Brown et al., 2006).

Although many organizations continue to designate significant amounts of financial capital to support sustainability causes (Cohen and Winn, 2007; Hockerts and Wüstenhagen, 2010), a major unresolved issue is when organizational leaders are justified in increasing or decreasing available monetary resources to such causes (Cheng, Ioannou, and Serafeim, 2014; Cohen, Smith, and Mitchell, 2008). While arguments have been made from an agency cost perspective that committing greater financial capital to sustainability causes is wasteful and amounts to misapplication of constrained organizational resources (McWilliams et al., 2006), contenders who share a stewardship theory viewpoint argue that greater resource commitment to sustainability programs is a social good that should be encouraged (Davis, Schoorman, & Donaldson, 1997; Schaltegger and Wagner, 2011). One example of stewardship theory is Patagonia, a California-based clothing company that since 1985 has committed one percent of its total annual sales and 10 percent of total annual profit to environmental sustainability causes at home and abroad (Davis et al., 1997).

Despite the burgeoning managerial and academic interest in this topic, scholarly research is yet to examine how financial resource slack impacts on firms' sustainability performance (Cohen et al., 2008; Hall et al., 2010). Previous research has focused mainly on understanding drivers of

sustainability performance among multinational enterprises located in developed-economy societies, ignoring potential variations in the sustainability performance outcome of financial resource slack in firms across developed and developing-economy societies. Accordingly, this study sought to contribute to the resource management and sustainability literatures by investigating two important research questions. First, at what level of financial resource slack is sustainability performance enhanced in developing-economy firms? Second, under what institutional conditions is sustainability performance outcome of financial resource slack optimized in developing- economy firms?

Building on agency theory and institutional development research (e.g., Cheng et al., 2014; Julian & Ofori-Dankwa, 2013), this study posits that greater financial resource slack lowers sustainability performance in developing-economy firms due to inherent weaknesses in enforcing compliance to sustainability causes. In addition, guided by stakeholder theory, the study argues that when local markets pressure on firms to act sustainably increases, greater financial resource are committed to sustainability causes in developing-economies. Furthermore, we draw insights from social exchange research to contend that the effect of financial resource slack on sustainability performance is weakened when firms in developing-economy markets build greater political connections in their target local markets (Zhao and Lu, 2016). In sum, this study provides a developing economy perspective on when financial slack helps shape sustainability performance improvement.

## **THEORETICAL BACKGROUND AND HYPOTHESES**

Discretionary organizational resources provide firms slack (Seifert, Morris, and Bartkus, 2004), constituting uncommitted resources or excess resources beyond those needed to convert a given level of input into output (Cyert and March, 1963; Nohria and Gulati, 1996). While an organization may possess multiple slack resources (e.g., extra raw materials, excess labor, excess work-in-process inventory, extra production or machinery capacity), it is argued that the most

discretionary of all slack resources is excess financial capital (Austin, Kresge, and Cohn , 1996). Financial slack is defined in this study as utilizable financial capital that can be diverted or deployed by organizations to achieve strategic business goals (c.f. George, 2005). Financial capital is often captured by capital at hand (i.e., net profit after all discretionary expenses and taxes are deducted), and is considered a firm's major monetary resource (Austin et al., 1996). The literature on social engagement argues that profitability is the strongest indicator of "availability of resources to potentially fund social investments" (Julian and Ofori-Dankwa, 2013, p. 1321). Drawing on the sustainability literature, sustainability performance is defined as the amount of money (e.g., percentage of sales and/or profit) organizations commit to social and environmental causes.

While academic work has indeed been done on the relationship between financial resource slack/availability and sustainability performance (i.e., corporate social and environmental responsibility) (e.g., Cheng et al., 2014; Cunha et al., 2013; Gibbert et al., 2007), the literature on financial resource slack and sustainability performance nexus is fragmented and lacking consensus on the direction of causality. In addition, empirical findings remain inconclusive about sustainability performance as an outcome of financial resource slack. Previous research on the financial resource slack and sustainability performance relationship has followed two major conflicting paths: stakeholder theory and slack resource theory.

#### *Stakeholder theory and sustainability performance*

Stakeholder theory holds that superior sustainability performance helps firms boost accumulation of financial resources (e.g., Cheng et al., 2014). Several perspectives are presented to support this position, one being that superior sustainability performance helps lower the potential for negative regulatory, legislative, and fiscal action against a firm, helping it attract greater financial capital from the market. When a socially and environmentally conscious market perceives a firm to be sensitive to sustainability issues, that firm is more likely to attract investors such as NGOs and state-owned institutions (Kapstein, 2001). A case in point is McGuire, Sundgren, and

Schneeweis's (1988) findings that greater social performance drives a firm's stock market performance, suggesting that stockholders tend to have positive perceptions of firms with good social records. Superior sustainability performance is seen to provide a firm greater access to valuable resources (e.g., recruitment and retention of high quality employees) and help lower a firm's advertising budget as sustainability performance may be used as a marketing tool to communicate positive corporate moral behavior (Cheng et al., 2014). Stakeholder theory also supports the contention that as sustainability performance helps a firm create social legitimacy; it also contributes to its reputation assets (Fombrun et al., 2000; Hawn et al., 2011).

#### *Slack resource theory and sustainability performance*

The slack resource theory posits that firms with greater financial resource slack, often resulting from strong prior financial performance (e.g. net profit and revenue growth), have an increased flexibility to invest in sustainability causes. Studies have shown that a greater financial slack is positively associated with increases in sustainability performance (e.g., Cheng et al., 2014; Orlitzky Schmidt, and Rynes, 2003; Waddock and Graves, 1997). Waddock and Graves's (1997) study of Standard & Poor's 500 Index found that greater retained profit is positively related to social performance. Orlitzky et al.'s (2003) meta-analysis of 52 studies further revealed that average annual percentage returns to investors, market return on security, monthly stock returns, changes in stockholder dividends, and shares are all positively related to corporate social performance.

#### *Understanding sustainability performance in developing-economy setting*

While most studies observing a positive association between financial slack and sustainability performance have been conducted on developed-economy firms, recent studies have questioned applicability of such findings to developing-economy firms. To this end, researchers have drawn on institutional development arguments to speculate that while greater financial slack may be positively related to superior sustainability performance in developed-economy firms, this

relationship may be negative in developing-economies where sustainability regulations are weak (Cheng et al., 2014; Khavul and Bruton, 2013).

In less developed economies, social and environmental good receives low priority from key market actors (e.g., customers, suppliers, distributors, and competitors) and non-market actors (e.g., policy makers and the general public) (Julian and Ofori-Dankwa, 2013). To this end, Scholars following the slack resource theory posit that firms operating in institutionally underdeveloped economies face severe and unpredictable market conditions that can threaten their survival (Bruton et al., 2013; Shevchenko, Lévesque, and Pagell, 2016), for which reason it is a disincentive for such firms to channel their slack financial capital to non-essential business practices. It is further argued that when market supporting institutions are poorly developed, capital fund accumulation, conservative spending, and risk-aversion serve as safeguards against unexpected market upheavals (Quartey, 2003). The contention of slack resource theory, therefore, is that increased levels of financial resource slack are associated with decreases in sustainability performance in firms operating in less developed economies compared to those in more developed economies.

A major gap exposed in the existing literature, therefore, is that limited studies have theoretically argued and directly tested the relationships between financial resource slack and sustainability performance in developing-economy firms. This is despite the caution to scholars about the danger of generalizing empirical works that address phenomenon in developed societies to conditions in the developing world (Bruton et al., 2013; Hoskinsson et al., 2013), as well as the noted tendency of firms in developing economies to engage in labor-intensive production processes and an aggressive orientation towards natural resource exploitation (Demuijnck and Ngnodjom, 2013). Thus, this study enhances scholarly understanding of sustainability performance implications of financial slack from a developing economy perspective.

*Financial resource slack and sustainability performance*

Financial resource slack refers to availability of discretionary finances to top management, and it reflects the degree of freedom with which management can spend money on both essential and non-essential business activities. From a slack resource theory perspective, greater financial slack leads to greater financial support for social and environmental sustainability causes (Adams and Hardwick, 1998; Brammer and Millington, 2004). Studies of developed market organizations show that net profit (an indicator of financial slack) is positively related to corporate social performance (e.g., Brammer and Millington; Seifert et al., 2004), although other cross-national studies find that financial slack is not directly related to corporate responsibility performance (e.g., Surroca et al., 2010).

From a developing-economy market perspective, evidence shows that while greater financial slack can make firms more powerful, they may also be more inclined to protect the reputation of their business interests rather than spend more on social and environmental causes (Julian and Ofori-Dankwa, 2013). A firm with substantial financial slack is able to engage in aggressive public relations efforts and afford better and therefore more expensive legal support to defend against lawsuits aimed at managing a potential crisis that might emerge as a result of social and/or environmental lapses. Furthermore, having more financial resources implies that a firm is able to shape public opinion and blunt any negative consequence related to its social and environmental practices; and this is likely to be more effective in developing economies than in developed economies.

It is noted that developing economy businesses tend to lack financial slack because they are typically focused on finding new ways of serving their markets as multinational companies rush into these markets to exploit new opportunities for growth. Increasing expenditure. Importantly, when slack increases, firms in developed economies may spend more on sustainability causes due to strong consumer consciousness about sustainable consumption and effectiveness of institutions to monitor, reward compliance and sanction violation of sustainability regulations. However, developing-economy firms might not behave similarly for a number of reasons. First, money is hard

to come by in developing economies as stock markets in economies are severely under-developed, limiting access to external capital. Firms are therefore better served by saving internally-generated capital for core business operations than spending on sustainability causes (Julian and Ofori-Dankwa, 2013). Second, developing-economy consumers have low disposable income, engage in subsistent consumption, and reserve available money for essential goods and services (Khavul and Bruton, 2013; Loayza, Schmidt-Hebbel, and Servén, 2000; Viswanathan et al., 2012). Accordingly, consumers in developing economies are less likely to pay a higher price for sustainable products and services given readily available cheaper alternatives (Andorfer and Liebe, 2012). Third, developing-economy policy makers tend to encourage small businesses to create more jobs first and foremost, hence social (e.g., labor safety) and environmental (e.g., waste disposal) regulations hardly take center stage in public policy discussions, and where such issues are raised policy initiatives to address them are plagued with corruption and poor enforcement (Gerdes, 2012), giving firms incentives to ignore the social and environmental implications of their business operations (Tang, Kacmar, and Busenitz, 2012). Thus, we argue that:

***H1: In a developing-economy market, financial resource slack will be negatively related to sustainability performance.***

#### *Moderating role of market pressure*

One way to extend extant knowledge on the financial slack–sustainability performance relationship is to examine how the relationship is shaped by degrees of market pressure in a firm’s target market. To this end, we integrated the resource slack and stakeholder theories to contend that as levels of market pressure increase, the proposed negative effect of financial resource slack on sustainability performance in developing-economy firms will be neutralized and become increasingly positive as levels of market pressure increase in magnitude. We argue that the impact of financial resource on sustainability performance in developing-economy firms may be strengthened when pressure from primary and secondary stakeholders on firms to act responsibly

increases. According to the stakeholder theory, a firm's stakeholders are any group whose actions and interests affect or are affected, directly or indirectly, by the behavior of a firm (Freeman, 1984). Stakeholder theory identifies two categories of market participants: primary stakeholders including employees, customers, suppliers, distributors, competitors, stockholders and state regulators; and secondary stakeholders such as community activists, advocacy groups, political and religious leaders, and non-governmental organizations (Eesley and Lenox, 2006). A key distinction between these two groups is that primary stakeholders tend to have contractual bonds with a firm; secondary stakeholders do not have direct legal authority over a firm but their actions and requests carry viable weight that can affect a firm's operational costs, reputation, ability to attract and retain primary stakeholders, and relationship with regulators (Michell et al., 1997). We argue that as both stakeholder groups put greater pressure on firms to improve sustainability performance, firms would be have an incentive to increase their sustainability expenditure (Clarkson, 1995; Eesley and Lenox).

For example, when competitors are spending a greater proportion of their sales and profits on sustainability causes, a firm may be forced by societal norms to do the same. Additionally, when customers increasingly demand sustainable products and services as a condition for consumption, a firm has a good economic incentive to commit more financial resources to sustainability causes. Similarly, when supply chain members require clean sustainability records as a condition for transaction exchange, it may become necessary for a firm to increase its financial commitment to sustainability causes. When responsible community-based (e.g., donations, sponsorships, community outreach), employee-based (e.g., low employee turnover, training hours, health and safety), and supply-based (e.g., sourcing, vendor standards, partner selection) behaviors are increasingly viewed as a minimum standard in a society, increased expenses on sustainability causes may become a major determinant of a firm's sustainability performance.

It is likely that firms will invest more in sustainability behaviors when sustainability activists engage in punishing or rewarding their sustainability performance (Baron, 2003). The

literature on environmental and social activism highlights strategies and tactics that activists use to change the behavior of targeted firms, including public strategies (e.g., lobbying of legislatures to toughen sanctions against poor environmental and social behaviors) and private campaigns (e.g., protests, boycotts and civil suits to force firms to improve their environmental and social performances). Research shows that activists motivated by environmental and social concerns are increasingly employing these strategies (particularly private politics) to influence firm behaviors and industry standards (Baron and Diermeier, 2007). However, it must be acknowledged that the probability of a targeted firm complying with activist demands depends on the perceived operational losses versus gains (King and Lenox, 2002; Lenox and Eesley, 2009). This study argues that a firm with greater financial slack would comply with activist demands by spending more on environmental and social issues because non-compliance may risk loss of profits, reputation, and customers. Accordingly, we posit that:

***H2:*** *In a developing-economy market, the negative effect of financial resource slack on sustainability performance will become positive when levels of host market pressure are higher.*

#### *Moderating role of political connectedness*

Political connectedness refers to the extent to which an organization's senior management actively invests time in engaging and influencing government policies and regulations (Luo and Junkunc, 2008). It is argued that profitable firms with slack financial capital spend substantial amount of money on lobbying political office-holders to promulgate laws and regulations that are favorable to firms' strategic business objectives (Baron, 2003). While evidence of political connectedness and firm value and performance has been documented in countries with strong as well as weak institutions (Niessen and Ruenzi, 2009; Zhao and Lu, 2016), empirical research on how political connectedness in a firm's target market moderates the effect of financial resource slack on sustainability performance in weak institutional environments is lacking.

Social exchange theory suggests that the relationships firms develop with political authorities (including ties with governmental officials and regulators) have an effect on the

favorability of regulatory resources and opportunities aimed at assuring competitive advantage (Hillman, Zardkoohi, and Bierman, 1999; Li and Zhang, 2007). While some scholars argue that many firms remain politically disengaged and tend to pursue arms-length relationships with political leaders and government regulators to avoid accusation of political patronage (Baron, 1995), recent observations indicate that firms' political actions are pervasive in developing societies and even in the industrialized societies. Several arguments are advanced to back this development. First, it is contended that political engagement may help a firm influence public policy and regulations (Oliver and Holzinger 2008; Hillman, Keim, and Schuler, 2004). Second, it is suggested that political ties may enable a firm lower operational costs and boost company value (Niessen and Ruenzi, 2009; Zhao and Lu, 2016). Third, political connections provide favorable access to resources under the control of state officials (Sheng, Zhou, and Li, 2011). Fourth, political backing may help obtain target market legitimacy (Li et al., 2008).

On the backdrop of these arguments, research shows that Standard & Poor's 500 companies spent nearly US\$1 billion on political contributions in 2010, with 87 percent committed to the United States federal lobbying expenditure on social and environmental policies (Welsh and Young, 2011). In developing countries, political connection is seen as a major strategic asset for firms seeking favorable treatment from industry regulators and governmental agencies (Sheng et al., 2011; Zhao and Lu, 2016). Business conditions in developing economies tend to experience rampant political shifts, it is well known that business executives tend to bankroll political electoral campaigns as a way of staying closer to the corridors of power (Burgis, Sevastopulo, and O'Murchu, 2014). For example, financial backing provided by business organizations has allowed some Sub-Saharan African leaders to hold on to political office and even attempt to change constitutional provisions to favor the business community (Burgis et al., 2014). Bankrolling political leaders is one way firms influence public policy and regulations to obtain preferential access to state-controlled resources (Saffu, 2003). As a result, it has been contended that firms with surplus financial capital have paid their way through the corridors of political power to influence

the writing of regulations that help reduce firms' operational costs on sustainability (Schuler, Rehbein, and Cramer, 2002).

Based on the assumption that firms leverage opportunities to their economic advantage (Baron, 1995), and taking into account the operational costs associated with sustainability-related expenditures (Sheng et al., 2011), we assert that the impact of financial resource slack on firms' sustainability performance will be weakened further when firms' political connectedness is high relative to when such connectedness is low in developing-economy markets (Ozgen and Baron, 2007). Our contention is that developing-economy market firms turn to political leaders to protect their investments and use social networks to substitute for insufficient formal institutions.

Li and Zhang (2007) maintain that in developing-economy markets where formal institutions of state are absent or are still forming, business success is predicated on the idea of 'who you know' to the extent that social networks and connections help substitute for the insufficient formal institutions (Acquaah, 2012; Sheng et al., 2011). In institutionally underdeveloped environments such as those in Sub-Saharan Africa, political ties provide firms flexible access to resource allocation because factor mobility (i.e. the ability to move factors of production such as labor and capital from one production process into another) is severely limited by market inefficiencies and governmental bureaucracies (Luo and Junkunc, 2008; Peng and Luo, 2000). Acquaah (2012) suggests that because risk and uncertainty are high in underdeveloped institutional environments connection to political leadership helps maximize a firm's access to valuable industry information on impending regulations and change. The institutional uncertainty gives rise to suspicion and lack of trust, and the richness and usefulness of information is evaluated not on the basis of acquired knowledge and competence but on the basis of social networks (Acquaah, 2007; Li and Zhang, 2007).

Acquaah (2007) characterizes Sub-Saharan Africa as a highly collectivistic society in which political authority is assigned to local chiefs, kings, religious leaders, and extended family heads, all of whom wield substantial influence on firms' behaviors through their control of access to local

resources and information. In Nigeria in particular, there is an elected national government; but family heads, chiefs, and kings are better recognized as custodians and allocators of resources (particularly lands). Thus, ties to kinships, villages of origin, religion, and political party are important aspects of business conduct (Khayesi, George, and Antonakis, 2014). In societies such as Nigeria, therefore, a firm with financial slack that also possesses strong ties to local political power brokers may be expected to spend less on sustainability causes (Daspit and Long, 2014; Grimm et al., 2013). Thus, we hypothesize that:

***H3: In a developing-economy market, the negative effect of financial resource slack on sustainability performance will become more negative when levels of political connectedness are greater.***

## **RESEARCH METHODS**

### *Study Context*

We tested our conceptual model on multi-source empirical studies in Nigeria. Our aim is to predict sustainability performance of developing-economy market firms doing business in a foreign market environment that is institutionally weak in monitoring, rewarding and punishing corporate behavior. To test the model, we studied exporting firms in Nigeria doing business in regional Sub-Saharan African markets. Two factors informed our choice of Nigeria. First, Nigeria is one of the largest economies in Sub-Saharan Africa with an estimated 173.60 million people and a projected gross domestic product (GDP) of US\$1.109 trillion and 6.2 percent annual growth rate in 2014; and estimated growth at 7.1 percent in 2015 (Barungi, 2014). In addition to Nigeria's estimated US\$1.1 trillion foreign direct investment (FDI) stock, this economy is also experiencing a rapid growth in key non-oil sectors including agro-processing, information and communication technology, and financial services. This diversity in Nigeria's economic activities has generated significant interest in the sustainability footprints of multinational enterprises operating in, and out of, this part of Sub-Saharan Africa (Ofori and Hinson, 2007). The second factor that led to our focus on Nigeria was that like many Sub-Saharan African democracies, Nigeria operates an open market economy that has led

to an increased presence of privately-owned businesses. With this socio-economic background, Nigeria provides an economic, social, and environmental context to examine how Western theories, which are assumed to be ‘universal,’ operate in Sub-Saharan African setting.

### *Samples and Data Collection*

Given the difficulty in identifying a single database on exporting firms in developing countries, including Nigeria (Khavul et al. 2010), we relied on multiple data sources to build our sampling frame. One source was a directory of small businesses provided by Nigeria’s Small Business Bureau. This directory was supplemented by a Nigerian business directory that provided additional information on exporting firms. These directories provided names, addresses, and telephone numbers of senior company executives or chief executive officers, including lead entrepreneurs. We screened the firms to ensure that the following criteria were met: (1) the firms were independent private business entities and not part of any company group or chain (Wiklund and Shepherd, 2011); (2) the firms had been operating international business in a Sub-Saharan African country for at least five years (Oviatt and McDougall, 1994); (4) the firms employed at least ten full-time staff (Goedhys and Sleuwaegen, 2010; Wiklund and Shepherd, 2011); and (5) there was complete contact information on a senior executive as well as a financial manager or chief accountant in the firm (Khavul et al., 2010), which enabled us to obtain data from multiple informants in each firm.

A total of 450 firms matched our criteria and agreed to be interviewed on-site. In early 2012, the finance directors or chief accountants of those firms were approached to obtain information on the firms’ financial resource slack and 268 representatives provided objective and perceptual information on their firms’ discretionary financial capital. In early 2013 we returned to the senior managers (including chief executive officers, and senior officers in charge of the firms’ public relations or marketing) to obtain information on the firms’ sustainability performance, market pressures, and institutional ties in Sub-Sahara African markets. We obtained valid responses from 248 firms (a 93% response rate) in 2013; these became the data used for our analyses.

To corroborate the data from these key informants, telephone calls were made to 20 marketing managers (10%) randomly selected from the 198 firms. The data from the marketing managers was compared with that obtained from the key informants, and non-significant mean differences were obtained ( $p > 0.05$ ). To check for reverse causality concerns, in 2014 we contacted the finance directors or chief accountants for information on the financial resource indicators to test whether the firms' sustainability performance indicators in 2013 accurately predicted 2014 financial performance. We found no relationship between the 2013 sustainability performance and 2014 financial resource indicators ( $\beta = 0.03$ ;  $t = 0.98$ ;  $p > 0.10$ ).

The firms in our sample operated in multiple industries across Africa, including cookware, textiles and garments, food and beverages, crafts, agro-processing, security, and financial services, which are representative of developing economy industries. The firms employed an average of 67 full-time employees. On average, the firms had been in business for nine years and exporting for eight years at the time of this study with ECOWAS<sup>1</sup> nations responsible for more than 60 percent of the firms' total annual exports. The firms served an average of 42 export markets. Their average total annual sales was US\$2.14 million, with 78.01 percent accounted for by export sales from Sub-Saharan Africa (including North Africa), nine percent from European Union markets, six percent from home market (Nigeria), five percent from other developing-economy markets outside Africa, and 1.99 percent from other markets (e.g., North and Central America).

### *Measures*

*Financial resource slack:* We measured the financial resource slack construct by obtaining objective and perceptual data from the finance directors or chief accountants on the firms' discretionary financial capital. Following Julian and Ofori-Dankwa (2013), we captured resource slack as an average of previous year return on sales and return on equity and net profit, obtained directly from the finance directors. These objective measures were validated with perceptual

---

<sup>1</sup> Economic Community of West African States: 15 sovereign west African nations

financial resource slack data, measured on a multi-item scale adapted from Wiklund and Shepherd (2005) and Cooper, Gimeno-Gascon, and Woo (1994). Perceptual comments included ‘there has been easy access to financial capital to support our African market operations’; ‘there have been substantial financial resources at the discretion of our managers for funding our African market operations’; and ‘if we needed more financial capital for our African operations, we could easily get it’ ( $\alpha = 0.89$ ). We then correlated the objective financial resource slack data with the perceptual data and observed a strong relationship ( $r = 0.81$ ;  $p < 0.01$ ).

*Sustainability Performance:* We followed McGuire et al. (1988) and Julian and Ofori-Dankwa (2013) to assess sustainability performance by asking the finance managers or chief accountants to state 1) percentage of total dollar income their firms spent on social and environmental responsibility activities in their African market operations, 2) the percentage of total annual profits spent on social responsibility activities in African market operations, and 3) the percentage of annual sales spent on social responsibility activities in African market operations. In all cases, the informants were asked to consider the previous financial year in their responses (i.e., 2013).

To validate the objective data provided by the finance managers, we asked entrepreneurs to share perceptual data related to their firms’ social responsibility performance in African markets using an eight-item sustainability performance scale (1= performed much worse than expected; 7 = performed much better than expected). Sample items included, ‘We perform well in terms of community-based corporate citizenship behaviors in our African markets (e.g. donations, sponsorship, and community outreach),’ and ‘We perform well in terms of employee-based corporate citizenship behaviors in our African markets (e.g. low employee turnover, training hours, and health and safety record)’ ( $\alpha = 0.88$ ). We obtained a significant correlation between the objective and perceptual social performance measures ( $p < 0.01$ ).

*Political connectedness:* We followed Luo and Junkunc (2008) to measure political connectedness with percentage scores on the total amount of time the entrepreneurs (and/or their senior managers)

spent cultivating relationships with government officials, regulators, and local community leaders in their African markets. We then followed Li and Zhang (2007) and Acquah (2007) to validate this objective measure by asking the entrepreneurs to indicate the extent to which their firms cultivated and nurtured relationships with governmental and regulatory agency officials, local community leaders in their African markets over the previous year (1 = Not at all; 7 = to an extreme extent):  $\alpha = 0.97$ . We then correlated the percentage scores with the perceptual scores, and a significant correlation was obtained ( $r = 0.65$ ;  $p < 0.01$ ).

*Market pressure:* We followed Luo and Junkunc's (2008) model to measure market pressure with percentage scores on the total amount of time the entrepreneurs (and/or their senior managers) spent dealing with sustainability issues in their African markets. Following Li and Calantone (1998), we validated the percentage scores with perceptual measures by asking the entrepreneurs to indicate the degree to which their firms, over the previous year, had to deal with considerable demands (or pressure) from their foreign market stakeholders (employees, customers, competitors, supply chain partners, and sustainability activists) regarding the firms' sustainability practices (1 = not at all; 7 = to an extreme extent). We found a modest correlation between the perceptual market pressure measures and the percentage measures ( $r = 0.55$ ;  $p < 0.01$ ).

*Control variables:* We controlled for the possible influence of several variables: industry type (dummy for manufactured products = 0; services provider = 1), firm size (i.e., logarithm transformation of the total full-time employees), number of African markets served, and firm age (logarithm transformation of the number of years a firm had been in business), African market experience (logarithm transformation of the number of years a firm has been doing business in Africa), and the number of products/services exported to African markets. Because the extant sustainability literature associated sustainability performance with financial performance (e.g., Orlitzky et al., 2003; Tang et al., 2012), we also controlled for that possibility by objectively

measuring the firms' financial performance using the following indicators: return on assets, return on investment, and return on sales for the financial year 2014.

### *Model specifications and results*

To test our hypotheses, several multiplicative interactions were created (Aiken, West, and Pitts, 2003). To attenuate for potential multicollinearity problems due to interactive terms in the structural model, all variables involved in multiplicative interactions were orthogonalized following the procedure recommended by Little, Bovaird, and Widaman (2006). Subsequently, we used hierarchical moderated regression analyses and ordinary least square estimator to test the hypotheses by specifying three nested models for each sample. This technique enabled us to assess the impacts of additional variables over and above the effects of variables in previous regression models. Typically, the importance of additional variables in a regression model is determined by observing the statistical significance of changes in R-square ( $R^2$ ) values. Accordingly, we examined the effect of the control variables on sustainability performance in Model 1, and assessed the direct effects of market pressure and political connectedness on sustainability performance in Model 2. In Model 3, we estimated the moderating effect of market pressure and political connectedness on the linkage between financial resource slack and sustainability performance. Descriptive statistics and correlations between the study's constructs provided in Table 1 and Table 2 summarize the findings of the six regression models. The findings indicate that the F-values for the full regression models are significant at the one percent level. None of the regression equations have multicollinearity problems: The largest variance inflation factor (VIF) is 2.33, which are well within the recommended limit of 5.00.

The study contends in Hypothesis 1 that the relationship between financial resource slack and sustainability performance is negative. As Model 3 shows, the negative coefficient ( $\beta = -0.12$ ;  $t = -1.99$ ;  $p < .05$ ) provides support for Hypothesis 1. Thus, the direct effect of financial slack on sustainability performance is negative, without taking into consideration the contingency factors.

To test the moderation hypotheses, we followed Hayes' (2013) process approach and Johnson–Neyman technique to determine the level of the two moderators at which the direct effect of financial resource slack is more or less related to sustainability performance. The Johnson–Neyman technique also enabled us to determine the p-values of the conditional effects of resource slack on sustainability performance. In Hypothesis 2, we propose that in a developing-economy market, the negative effect of financial resource slack on sustainability performance becomes positive when the values of host market pressure are higher. The results in Model 3 show that market pressure strengthens the effect of financial resource slack on sustainability performance when market pressure is high ( $\beta = 0.17$ ;  $t = 3.04$ ;  $p < .01$ ), supporting our Hypothesis 2.

In Hypothesis 3, we argue that in a developing-economy market, political connectedness strengthens the negative effect of financial resource slack on sustainability performance. Findings in Model 3 show that the interaction term between resource slack and political connectedness is significant and negative ( $\beta = -0.25$ ;  $t = -4.30$ ;  $p < 0.01$ ), indicating that as levels of political connectedness increase the negative effect of financial resource slack on sustainability performance becomes more negative, suggesting a support for Hypothesis 3.

#### *Additional analyses and robustness checks*

To further illustrate the moderating effect relationships, we plotted the interaction graphs following the Aiken et al. (2003) approach. Figure 1 and Figure 2 graphically support the hypotheses. Specifically, findings show that the relationship between financial resource slack and sustainability performance is positive with higher values of market pressure (Fig. 1) and negative with higher values of political connectedness (Fig. 2).

We further analyzed the relationships between financial resource slack and sustainability performance by decomposing the sustainability performance variable into social and environmental components and analyzing two additional and distinct hierarchical moderated regression models. Findings reveal the same pattern of results when the independent variables are regressed separately

on the social and environmental sustainability performance components<sup>2</sup>. Thus, whether sustainability performance is predicted at a higher-order or at the level of its component constructs, findings remain consistent.

---

**Insert Table 1 about here**

---

---

**Insert Table 2 about here**

---

---

**Insert Figure 1 about here**

---

---

**Insert Figure 2 about here**

---

## **DISCUSSION AND IMPLICATIONS**

### *Summary of key findings*

Evidence of firms' commitments to sustainability causes is gathering increasing attention from scholars, policy makers, and the general public, such that it has become increasingly important for small businesses to demonstrate that their financial success is balanced with their success on non-financial fronts (Bruton et al., 2013; Leonidou et al., 2016). While studies have attempted to establish an empirical connection between financial resource slack and sustainability performance, findings so far remain conflicting. Our empirical study of exporting businesses in Nigeria reveals that while greater financial slack decreases sustainability performance, the effect of slack on sustainability performance increases when market pressure is higher and when political connectedness is low. These findings help extend extant research that has explored how financial resource slack impacts sustainability performance in developing economy settings.

### *Theoretical implications*

---

<sup>2</sup> Details of results of these additional analyses are readily available from the corresponding author.

The finding that the effect of financial resource slack on sustainability performance is negative contradicts stakeholder theory but extends existing agency argument of a negative association between financial resource slack and sustainability performance (e.g., Connelly, Ketchen, and Slater, 2011; Julian and Ofori-Dankwa, 2013). Importantly, viewed from an agency theory perspective, results from this study suggest that firms in Nigeria treat sustainability expenses as non-essential operational cost (Shevchenko, Lévesque, and Pagell, 2016). This is contrary to conventional stakeholder view that sustainability expense should be an essential outlay for firms to enhance sustainability performance. A key theoretical implication, therefore, is that although scholarly research has sought to explain key antecedents to sustainability performance, evidence from this study suggests that the relationship is more complex than previously thought (Khavul and Bruton, 2013). The results from this research show that it can be expected that the impact of financial slack may be dependent upon institutional context within which sustainability is practiced; with differing levels of slack impacting on sustainability performance differently across different market contexts. Hence, the findings from our study provide initial empirical evidence to support the argument that the causal link between financial resource slack and sustainability performance is dependent upon levels of financial slack available to firms and the societies within which sustainability practices are undertaken.

Although previous research has examined a linear association between financial slack and sustainability performance (e.g., Julian and Ofori-Dankwa, 2013), key contingencies have been under-researched, explaining the apparently contradictory findings previously reported in the literature. First, we address this gap in the literature by showing that the effect of financial resource slack on sustainability performance is strengthened when levels of market pressure increase in exporting firms. This finding sheds new light on the positive (e.g., Orlitzky et al. 2003), negative (e.g., Julian and Ofori-Dankwa, 2013), and non-significant (e.g., Morris and Bartkus, 2004; Seifert et al., 2004) findings reported in the literature. We show that the effect of financial slack on sustainability performance is contingent upon the degree of local market pressure: firms increase

spending on sustainability causes when competition intensifies between firms to demonstrate greater care for the society and the environment, when stakeholders demand greater sustainable operations from firms, when supply chain partners demand that firms demonstrate an acceptable level of sustainable business practices, and when sustainability activists mount pressure on firms to boost sustainability footprints.

Second, while the contingency role of political connectedness has been studied in some studies in the past (e.g., Zhao and Lu, 2016), this study further extends sustainability literature by showing that the impact of financial resource slack on sustainability performance is negative when firms' political connectedness is higher. This finding helps provide an empirical grounding for the long-standing assumption that greater connectedness between corporate leaders and political leaders helps weaken the propensity of firms to commit more resources to sustainability causes (Levy, Reinecke, and Manning, 2015). Our results show that greater available financial capital makes firms doing business in Sub-Saharan African markets increasingly powerful because they have the resources to influence social and environmental laws and regulations (Baron, 2003). The social exchange theory suggests that stronger ties with government officials who control regulatory resources (e.g., policy concessions and tax rebates) enables firms legitimize their behavior in an increasingly complex and heterogeneous market environments (Peng and Luo, 2000; Scherer, Palazzo, and Seidl, 2013). The Nigeria sample studied supports this argument: as the firms accumulated more wealth they tended to exploit regulatory and governmental network resources available to them via ties with governmental, regulatory officials and local political leaders, and decreased or did not increase spending on sustainability practices.

Our findings relating to the negative moderating effect of political connectedness provides further empirical support for the assumption that Sub-Saharan African governments have little political will to compel firms to increase spending on social and environmental practices (Blowfield and Frynas, 2005). Local chiefs and kings in Sub-Saharan African societies see investments by local and foreign enterprises as a social good in itself because such investments helps grow the local

economies by providing employment and subsidies to build local infrastructure. For example, a Forbes report indicates that African multinational enterprises are operating “*large-scale operations that create jobs, build income, and help the countries modernize infrastructure*” (Ruxin, 2011). Accordingly, greater sustainability performance of businesses operating in the local economies becomes less of a major issue, particularly for entrepreneurs who cultivate strong relationships with local leaders. Furthermore, this finding may also feed into the notion that African managers have little interest in sustainability issues (Ofori and Hinson, 2007) and may rely on their ties with political leaders at national and local levels to limit sustainability expenses, lowering overall operational costs that can be high in that region (Quartey, 2003).

#### *Managerial implications*

From a managerial perspective, it can be said that many multinational firms operating in Sub-Saharan African markets face hostile host-market conditions (e.g., underdeveloped institutional and physical infrastructure). These firms may be inclined to adopt a business culture that emboldens prudent financial management policies that include judicious amassing of capital in preparation for unexpected market turmoil. Our results suggest that this conservative financial management inclination has compelled Nigerian firms to direct their financial resources to essential business expenses and spend less on sustainability activities. The tendency of firms to commit less financial capital to sustainability investment programs is not a prudent behavior in the long-run, especially when market pressure in host markets increases and ties to government officials and local community leaders dries out: under these two conditions firms are required to commit a greater proportion of their financial slack to sustainability causes to remain competitive.

#### **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

Although this study expands knowledge on financial resource slack and sustainability performance relationship, the results should be taken as tentative for a variety of reasons. First, exporting may be

the most popular mode of international expansion among businesses competing in, and out of, Sub-Saharan Africa due to the perceived risks associated with doing business on that continent.

However, future research should examine firms that use more sophisticated and riskier modes of international operation (e.g., foreign direct investment) as such firms using such entry modes could form unique groups of firms and contexts. Compared to the exporting business, other modes of international expansion may require firms to take on greater risks and establish distinct social and environmental footprints.

Second, the context of this study is Sub-Sahara Africa, area region that is undergoing significant political, economic, social, and technological transformations. The transitions that are sweeping through Africa are fertile ground for additional research, but though the pace of transformations in Africa may be similar to conditions in other emerging markets (e.g., China and India) the sustainability challenges and opportunities firms face in other emerging markets may be different from those in Africa. A fruitful avenue for future research, therefore, is to extend the findings reported in this study by looking at the extent to which the baseline financial slack–sustainability performance relationship as well as the moderators can be extended to other emerging markets.

Third, the firms in our sample are largely exporting small businesses whose resource conditions and proclivity towards sustainability issues may be different from larger multinational enterprises doing business in less developed economies such as Africa (Khavul and Bruton, 2013). Additionally, the strategic orientations (of small businesses may be different from that of larger MNCs, and argument could therefore be made those firms' strategic posture (e.g. stakeholder orientation) may differ in the extent to which they drive sustainability performance (Calic and Mosakowski, 2016). We call for additional scholarly works on these fronts.

Fourth, the process through which financial slack (a tangible resource stock) enhances sustainability performance is a useful direction for future research. For example, future research may draw insights from dynamic capability theory to theorize that specific firm capabilities (e.g.,

adaptive capability) and strategies (e.g., sustainability program adaptation versus standardization) may serve as a channel through which financial slack impacts sustainability performance.

## REFERENCES

- Acquaah, M. (2007). Managerial social capital, strategic orientation, and organizational performance in an emerging economy. *Strategic Management Journal*, 28(12), 1235-1255.
- Acquaah, M. (2012). Social networking relationships, firm-specific managerial experience and firm performance in a transition economy: A comparative analysis of family owned and nonfamily firms. *Strategic Management Journal*, 33(10), 1215-1228.
- Adams, M., and Hardwick, P. (1998). An analysis of corporate donations: United Kingdom evidence. *Journal of management Studies*, 35(5), 641-654.
- Aiken, L. S., West, S. G., and Pitts, S. C. (2003). *Multiple linear regression*. In J. A. Schinka, W. F. Velicer and I. B. Weiner (Eds.), *Handbook of Psychology*. Canada: John Wiley & Sons Inc.
- Andorfer, V. A., and Liebe, U. (2012). Research on fair trade consumption: A review. *Journal of Business Ethics*, 106(4), 415-435.
- Austin, J. A. Q., Kresge, S. S., and Cohn, W. (1996). Pathways to business success in sub-Saharan Africa. *Journal of African Finance and Economic Development*, 2(1), 56-76.
- Barclays Report (2015). *UK-Africa trade corridor to be fuelled by Sub-Saharan 'sleeping giants*. Available at [http://www.newsroom.barclays.co.uk/r/3228/uk-africa\\_trade\\_corridor\\_to\\_be\\_fuelled\\_by\\_sub-saharan](http://www.newsroom.barclays.co.uk/r/3228/uk-africa_trade_corridor_to_be_fuelled_by_sub-saharan). Accessed on September 3, 2015.
- Baron, D. P. (1995). Integrated strategy. *California Management Review*, 37(2), 47-65.
- Baron, D. P. (2003). *Business and Its Environment*. Englewood Cliffs, NJ: Prentice Hall.
- Baron, D. P., and Diermeier, D. (2007). Strategic activism and nonmarket strategy. *Journal of Economics & Management Strategy*, 16(3), 599-634.
- Barungi, B. (2014). *Nigeria*. African Economic Outlook. Retrieved from [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/Nigeria\\_EN.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Nigeria_EN.pdf) [accessed April 17, 2016]
- Blowfield, M., and Frynas, J.G. (2005). Setting new agendas: Critical perspectives on corporate social responsibility in the developing world. *International Affairs*, 81(3), 499-513.
- Brammer, S., & Millington, A. (2004). The development of corporate charitable contributions in the UK: A stakeholder analysis. *Journal of Management studies*, 41(8), 1411-1434.
- Brown, T. J., Dacin, P. A., Pratt, M. G., and Whetten, D. A. (2006). Identity, intended image, construed image, and reputation: An interdisciplinary framework and suggested terminology. *Journal of the Academy of Marketing Science*, 34(2), 99-106.
- Bruton, G. D., Filatotchev, I., Si, S., and Wright, M. (2013). Entrepreneurship and strategy in emerging economies. *Strategic Entrepreneurship Journal*, 7(3), 169-180.

- Burgis, T., Sevastopulo, D., and O'Murchu, C. (2014). *China in Africa: How Sam Pa became the middleman*. Retrieved from <http://www.ft.com/cms/s/2/308a133a-1db8-11e4-b927-0144feabdc0.html>. Accessed on September 10, 2014.
- Calic, G., and Mosakowski, E. (2016). Kicking Off Social Entrepreneurship: How A Sustainability Orientation Influences Crowdfunding Success. *Journal of Management Studies*, 53(5), 738-767.
- Cheng, B., Ioannou, I., and Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic Management Journal*, 35(1), 1-23.
- Clarkson, M. B. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. *Academy of Management Review*, 20, 92-117.
- Cochran, P. L., and Wood, R. A. (1984). Corporate social responsibility and financial performance. *Academy of management Journal*, 27(1), 42-56.
- Cohen, B., and Winn, M. I. (2007). Market imperfections, opportunity and sustainable entrepreneurship. *Journal of Business Venturing*, 22(1), 29-49.
- Cohen, B., Smith, B., and Mitchell, R. (2008). Toward a sustainable conceptualization of dependent variables in entrepreneurship research. *Business Strategy and the Environment*, 17(2), 107-119.
- Connelly, B. L., Ketchen Jr, D. J., and Slater, S. F. (2011). Toward a "theoretical toolbox" for sustainability research in marketing. *Journal of the Academy of Marketing Science*, 39(1), 86-100.
- Cooper, A. C., Gimeno-Gascon, F. J., and Woo, C. Y. (1994). Initial human and financial capital as predictors of new venture performance. *Journal of Business Venturing*, 9(5), 371-395.
- Cunha, M.P., Rego, A., Oliveira, P., Rosado, P., and Habib, N. (2014). Product Innovation in Resource-Poor Environments: Three Research Streams. *Journal of Product Innovation Management*, 31(2), 202-210.
- Cyert, R. M., and March, J. G. (1963). *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall, Inc.
- Daspit, J. J., and Long, R. G. (2014). Mitigating moral hazard in entrepreneurial networks: Examining structural and relational social capital in East Africa. *Entrepreneurship Theory and Practice*, 38(6), 1343-1350.
- Davis, J. H, Schoorman, F. D., and Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22(1), 20-47.
- Demuijnck, G., and Ngnodjom, H. (2013). Responsibility and informal CSR in formal Cameroonian SMEs. *Journal of Business Ethics*, 112, 653-665.
- Eesley, C., & Lenox, M. J. (2006). Firm responses to secondary stakeholder action. *Strategic Management Journal*, 27(8), 765-781.
- Fombrun, C. J., Gardberg, N. A., and Barnett, M. L. (2000). Opportunity platforms and safety nets: Corporate citizenship and reputational risk. *Business and society review*, 105(1), 85-106.

- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Englewood Cliffs, NJ: Prentice-Hall.
- George, G. (2005). Slack resources and the performance of privately held firms. *Academy of Management Journal*, 48(4), 661-676.
- Gerdes, J. (2012). *More countries join coalition to slash soot and methane*. Retrieved from <http://www.forbes.com/sites/justingerdes/2012/07/30/more-countries-join-coalition-to-slash-soot-and-methane/>. Accessed on April 17, 2016.
- Gibbert, M., Hoegl, M., and Välikangas, L. (2007). In praise of resource constraints. *MIT Sloan Management Review*, 48(3), 15-17.
- Goedhuys, M., and Sleuwaegen, L. (2010). High-growth entrepreneurial firms in Africa: a quantile regression approach. *Small Business Economics*, 34(1), 31-51.
- Greenley, G. E., and Oktemgil, M. (1998). A comparison of slack resources in high and low performing British companies. *Journal of Management Studies*, 35(3), 377-398.
- Grimm, M., Gubert, F., Koriko, O., Lay, J., and Nordman, C. J. (2013). Kinship ties and entrepreneurship in Western Africa. *Journal of Small Business & Entrepreneurship*, 26(2), 125-150.
- Hall, J. K., Daneke, G. A., and Lenox, M. J. (2010). Sustainable development and entrepreneurship: Past contributions and future directions. *Journal of Business Venturing*, 25(5), 439-448.
- Hayes, A. (2013). *Introduction to Mediation, Moderation, and Conditional Process Analysis: A regression-based Approach*. The Guilford Press, New York.
- Hillman, A. J., Keim, G. D., and Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management*, 30(6), 837-857.
- Hillman, A. J., Zardkoohi, A., and Bierman, L. (1999). Corporate political strategies and firm performance: indications of firm-specific benefits from personal service in the US government. *Strategic Management Journal*, 20(1), 67-81.
- Hockerts, K., and Wüstenhagen, R., (2010). Greening Goliaths versus emerging Davids: Theorizing about the role of incumbents and new entrants in sustainable entrepreneurship. *Journal of Business Venturing*, 25(5), 481-492.
- Hoskisson, R. E., Wright, M., Filatotchev, I., and Peng, M. W. (2013). Emerging multinationals from Mid-Range economies: The influence of institutions and factor markets. *Journal of Management Studies*, 50(7), 1295-1321.
- Julian, S. D., and Ofori-Dankwa, J. C. (2013). Financial resource availability and corporate social responsibility expenditures in a Sub-Saharan economy: The institutional difference hypothesis. *Strategic Management Journal*, 34(11), 1314-1330.
- Kapstein, E. B. (2001). The corporate ethics crusade. *Foreign Affairs*, 80(5), 105-119.

- Khavul, S., and Bruton, G. D. (2013). Harnessing innovation for change: Sustainability and poverty in developing countries. *Journal of Management Studies*, 50(2), 285-306.
- Khavul, S., and Bruton, G. D. (2013). Harnessing innovation for change: Sustainability and poverty in developing countries. *Journal of Management Studies*, 50(2), 285-306.
- Khavul, S., Pérez-Nordtvedt, L., and Wood, E. (2010). Organizational entrainment and international new ventures from emerging markets. *Journal of Business Venturing*, 25(1), 104-119.
- Khayesi, J. N., George, G., and Antonakis, J. (2014). Kinship in entrepreneur networks: Performance effects of resource assembly in Africa. *Entrepreneurship Theory and Practice*, 38(6), 1323-1342.
- King, A., and Lenox, M. (2002). Exploring the locus of profitable pollution reduction. *Management Science*, 48(2), 289-299.
- Lawton, T., McGuire, S., and Rajwani, T. (2013). Corporate political activity: A literature review and research agenda. *International Journal of Management Reviews*, 15(1), 86-105.
- Lenox, M. J., and Eesley, C. E. (2009). Private environmental activism and the selection and response of firm targets. *Journal of Economics & Management Strategy*, 18(1), 45-73.
- Leonidou, L. C., Christodoulides, P., and Thwaites, D. (2016). External determinants and financial outcomes of an eco-friendly orientation in smaller manufacturing firms. *Journal of Small Business Management*, 54(1), 5-25.
- Levy, D., Reinecke, J., and Manning, S. (2015). The political dynamics of sustainable coffee: Contested value regimes and the transformation of sustainability. *Journal of Management Studies*.
- Li, H., and Zhang, Y. (2007). The role of managers' political networking and functional experience in new venture performance: Evidence from China's transition economy. *Strategic Management Journal*, 28(8), 791-804.
- Li, H., Meng, L., Wang, Q., and Zhou, L. A. (2008). Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of development economics*, 87(2), 283-299.
- Li, T., and Calantone, R. J. (1998). The impact of market knowledge competence on new product advantage: Conceptualization and empirical examination. *The Journal of Marketing*, 62(4), 13-29.
- Lipton, E., and Hakim, D. (2013). *Lobbying bonanza as firms try to influence European Union*. Retrieved from [http://www.nytimes.com/2013/10/19/world/europe/lobbying-bonanza-as-firms-try-to-influence-european-union.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2013/10/19/world/europe/lobbying-bonanza-as-firms-try-to-influence-european-union.html?pagewanted=all&_r=0). Accessed on April 17, 2016.
- Little, T. D., Bovaird, J. A., and Widaman, K. F. (2006). On the merits of orthogonalizing powered and product terms: Implications for modeling interactions among latent variables. *Structural Equation Modeling*, 13(4), 497-519.

- Loayza, N., Schmidt-Hebbel, K., and Servén, L. (2000). Saving in developing countries: an overview. *The World Bank Economic Review*, 14(3), 393-414.
- Luo, Y., and Junkunc, M. (2008). How private enterprises respond to government bureaucracy in emerging economies: The effects of entrepreneurial type and governance. *Strategic Entrepreneurship Journal*, 2(2), 133-153.
- McGuire, J. B, Sundgren, A., and Schneeweis, T. (1988). Corporate social responsibility and firm financial performance. *Academy of Management Journal*, 31(4): 854-872.
- McWilliams, A., Siegel, D. S., and Wright, P. M. (2006). Corporate social responsibility: Strategic implications. *Journal of management studies*, 43(1), 1-18.
- Mellahi, K., and Wilkinson, A. (2010). A study of the association between level of slack reduction following downsizing and innovation output. *Journal of Management Studies*, 47(3), 483-508.
- Melnyk, S. A., Sroufe, R. P., and Calantone, R. (2003). Assessing the impact of environmental management systems on corporate and environmental performance. *Journal of Operations Management*, 21(3), 329-351.
- Mitchell, R. K., Agle, B. R., and Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of management review*, 22(4), 853-886.
- Niessen, A., and Ruenzi, S. (2010). Political connectedness and firm performance: Evidence from Germany. *German Economic Review*, 11(4), 441-464.
- Nohria, N., and Gulati, R. (1996). Is slack good or bad for innovation? *Academy of Management Journal*, 39(5), 1245-1264.
- Ofori, D., and Hinson, R.E. (2007). Corporate social responsibility (CSR) perspectives of leading firms in Ghana. *Corporate Governance*, 7(2), 178-193.
- Oliver, C., and Holzinger, I. (2008). The effectiveness of strategic political management: A dynamic capabilities framework. *Academy of Management Review*, 33(2), 496-520.
- Orlitzky, M., Schmidt, F. L., and Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization studies*, 24(3), 403-441.
- Oviatt, B. M., and McDougall, P. P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*, 25(1), 45-64.
- Ozgen, E., & Baron, R. A. (2007). Social sources of information in opportunity recognition: Effects of mentors, industry networks, and professional forums. *Journal of Business Venturing*, 22(2), 174-192.
- Patzelt, H., Shepherd, D. A., Deeds, D., and Bradley, S. W. (2008). Financial slack and venture managers' decisions to seek a new alliance. *Journal of Business Venturing*, 23(4), 465-481.
- Peng, M. W., and Luo, Y. (2000). Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(3), 486-501.

- Preston, L. E., and O'Bannon, D. P. (1997). The corporate social-financial performance relationship. *Business and Society*, 36(4), 419-429.
- Quartey, P. (2003). Financing small and medium enterprises (SMEs) in Ghana. *Journal of African Business*, 4(1), 37-55.
- Ruxin, J. (2011). *African Multinational Corporations are Catching Up*, Forbes. Available at <http://www.forbes.com/sites/joshuaruxin/2011/06/09/african-multinational-corporations-are-catching-up/#22e2dd7fcb3>. Accessed on April 24, 2016.
- Saffu, Y. (2003). The funding of political parties and election campaigns in Africa. In R. Austin and M. Tjernström (Eds.), *Funding of political parties and election campaigns*. Sweden: The International Institute for Democracy and Electoral Assistance.
- Schaltegger, S., and Wagner, M. (2011). Sustainable entrepreneurship and sustainability innovation: Categories and interactions. *Business Strategy and the Environment*, 20(4), 222-237.
- Scherer, A. G., Palazzo, G., and Seidl, D. (2013). Managing legitimacy in complex and heterogeneous environments: Sustainable development in a globalized world. *Journal of Management Studies*, 50(2), 259-284.
- Schuler, D. A., Rehbein, K., and Cramer, R. D. (2002). Pursuing strategic advantage through political means: A multivariate approach. *Academy of Management Journal*, 45(4), 659-672.
- Seifert, B., Morris, S. A., and Bartkus, B. R. (2004). Having, giving, and getting: Slack resources, corporate philanthropy, and firm financial performance. *Business & Society*, 43(2), 135-161.
- Sheng, S., Zhou, K. Z., and Li, J. J. (2011). The effects of business and political ties on firm performance: Evidence from China. *Journal of Marketing*, 75(1), 1-15.
- Shevchenko, A., Lévesque, M., and Pagell, M. (2016). Why firms delay reaching true sustainability. *Journal of Management Studies*, 53(5), 911-935.
- Surroca, J., Tribó, J. A., and Waddock, S. (2010). Corporate responsibility and financial performance: The role of intangible resources. *Strategic Management Journal*, 31(5), 463-490.
- Tang, J., Kacmar, K. M., and Busenitz, L. (2012). Entrepreneurial alertness in the pursuit of new opportunities. *Journal of Business Venturing*, 27(1), 77-94.
- The Economist (2014). *Obama's green gamble*. Retrieved from <http://www.economist.com/blogs/democracyinamerica/2014/06/climate-policy>. Accessed on January 2, 2015.
- UK Economic Outlook (2015). Retrieved from <https://www.pwc.co.uk/assets/pdf/ukeo-section4-exports-november2015.pdf>. Accessed on April 17, 2016.
- Vanacker, T., Collewaert, V., and Paeleman, I. (2013). The relationship between slack resources and the performance of entrepreneurial firms: The role of venture capital and angel investors. *Journal of Management Studies*, 50(6), 1070-1096.

- Varadarajan, R. (2014). Toward sustainability: public policy, global social innovations for base-of-the-pyramid markets, and demarketing for a better world. *Journal of International Marketing*, 22(2), 1-20.
- Viswanathan, M., Sridharan, S., Ritchie, R., Venugopal, S., and Jung, K. (2012). Marketing interactions in subsistence marketplaces: A bottom-up approach to designing public policy. *Journal of Public Policy & Marketing*, 31(2), 159–177.
- Voss, G. B., Sirdeshmukh, D., and Voss, Z. G. (2008). The effects of slack resources and environmental threat on product exploration and exploitation. *Academy of Management Journal*, 51(1), 147-164.
- Waddock, S. A., and Graves, S. B. (1997). The corporate social performance. *Strategic Management Journal*, 8(4), 303-319.
- Wales, W. J., Patel, P. C., Parida, V., and Kreiser, P. M. (2013). Nonlinear effects of entrepreneurial orientation on small firm performance: The moderating role of resource orchestration capabilities. *Strategic Entrepreneurship Journal*, 7(2), 93-121.
- Welsh, H., and Young, R. (2011). *Corporate governance of political expenditures: 2011 benchmark report on S&P 500 Companies*. Available at SSRN 1959566.
- Wiklund, J., and Shepherd, D. A. (2011). Where to From Here? EO-as-Experimentation, Failure, and Distribution of Outcomes. *Entrepreneurship Theory and Practice*, 35(5), 925-946.
- Wiklund, J., and Shepherd, D. (2005). Entrepreneurial orientation and small business performance: a configurational approach. *Journal of Business Venturing*, 20(1), 71-91.
- Zhao, H., and Lu, J. (2016). Contingent value of political capital in bank loan acquisition: Evidence from founder-controlled private enterprises in China. *Journal of Business Venturing*, 31(2), 153-174.

Figure 1: Moderating effect of market pressure

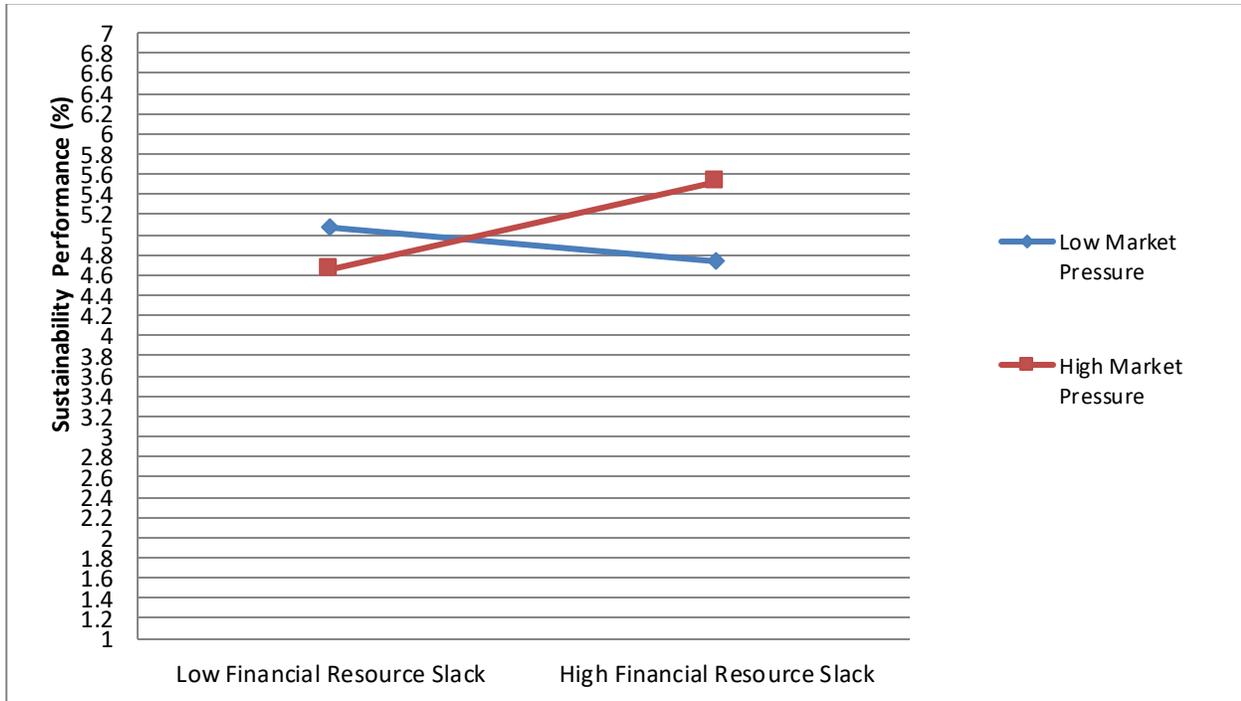


Figure 2: Moderating effect of political connectedness

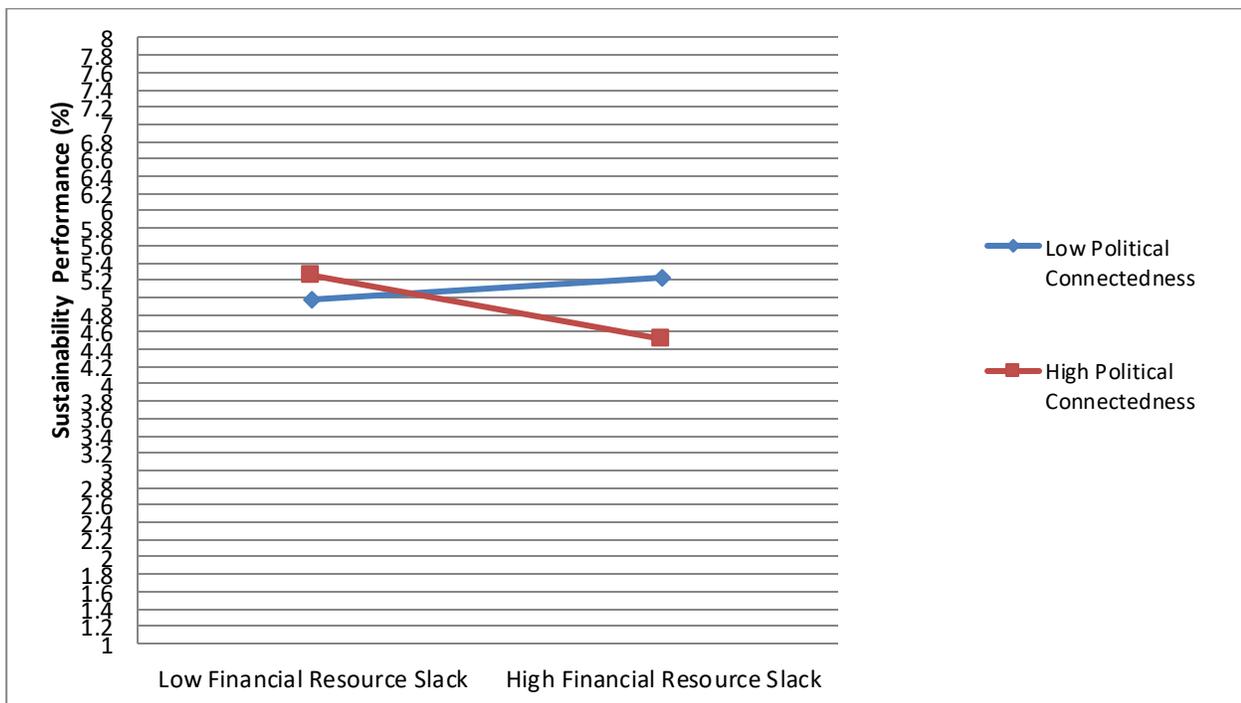


Table 1: Descriptive Statistics and Inter-Construct Correlations

Variables	Means	SD	1	2	3	4	5	6	7	8	9	10
1 Financial resource slack	3.41	0.90										
2 Market pressure	4.60%	8.00%	0.47**									
3 Political connectedness	4.90%	6.80%	0.29**	0.47**								
4 Sustainability performance	5.60%	6.20%	-0.16*	0.40**	0.32**							
5 Industry	58.00%	42.00%	0.03	0.15*	-0.01	0.03						
6 Firm size (total full-time employee)	61	67	0.23**	-0.15*	0.01	-0.02	-0.01					
7 Number of African markets served	42	45	0.07	-0.13*	0.08	0.13*	-0.05	0.49**				
8 Africa business experience (in years)	8	7	0.29**	0.09	0.21**	-0.05	0.04	0.57**	0.39**			
9 Number of products exported	15	7	0.31**	0.10	0.22**	0.15*	0.02	0.26**	0.22**	0.51**		
10 Firm age	9	6	0.19**	0.13*	0.22**	0.01	0.06	0.42**	0.39**	0.48**	0.44**	

\*\* : Correlation is significant at the 0.01 level (2-tailed).

\* : Correlation is significant at the 0.05 level (2-tailed).

SD: Standard Deviation

Table 2: Results of Moderated Regression Analysis

<b>Dependent variable (2014): Sustainability Performance</b>				
<b>Independent Variables (2013)</b>	Model 1	Model 2	Model 3	VIF
<b><i>Controls</i></b>				
Industry type	0.04 (0.66)	0.00 (0.04)	0.02 (0.43)	1.05
Firm size (total employees)	-0.02 (-0.29)	-0.12 (-1.76)	-0.12 (-1.75)	1.95
Number of African markets	0.17 (2.27)	0.20 (3.33)	0.21 (3.53)	1.43
Years doing business in Africa	-0.37 (2.41)	-0.31 (-2.46)	-0.07 (-0.51)	1.54
Number of products exported to Africa	0.24 (2.26)	0.16 (2.65)	0.12 (1.99)	1.49
Firm age	0.17 (1.27)	0.07 (0.64)	-0.14 (-1.16)	1.80
<b><i>Main effects</i></b>				
Market pressure (MP)		0.28 (3.89)	0.25 (3.62)	2.04
Political connectedness (PC)		-0.11 (-1.84)	-0.10 (-1.89)	1.45
H1: Financial Resource slack (FR)		-0.11 (-1.78)	-0.12 (-1.99)	1.35
<b><i>Moderating effects</i></b>				
H2: FR x MP			0.17 (3.04)	1.34
H3: FR x PC			-0.25 (-4.30)	1.41
<b><i>Fit statistics</i></b>				
F-Statistics	3.30*	15.29***	15.45***	
R <sup>2</sup>	0.08	0.39	0.44	
Adjusted R <sup>2</sup>	0.05	0.37	0.41	
ΔR <sup>2</sup>	-	0.30***	0.05**	

Standardized coefficients are reported (t-values are in parentheses); Significant levels: \* = 0.05; \*\* = 0.01; \*\*\* = 0.001 (2-tailed test); VIF = Variance Inflation Factor