

## **Misery Loves Companies: Whither Social Initiatives by Business?**

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**Abstract**

Companies are increasingly being asked to provide innovative solutions to deep-seated problems of human misery. Organization and management scholarship can play an important role in understanding and guiding possible corporate responses. Theory and research to date have sought to reconcile possible corporate responses with economic premises about the purpose of the firm. Our goals in this paper are to reorient the debate and to spark new research about social initiatives by business. Acknowledging that firms already make such investments, we try to stimulate a fresh agenda for organizational scholarship in three ways. First, we depict the hold that economic reasoning has had on how organization theory conceives of the relationship between the firm and society. Second, we examine the consequences of this hold by appraising both the 30-year quest for an empirical relationship between a corporation's social initiatives and its financial performance, as well as the more contemporary development of stakeholder theory. Third, we use the debate itself as a point of departure to suggest an alternative scholarly agenda. This agenda restores the distinctive lens of organizational scholarship and pursues fundamentally new insights about the role of the corporation in society.

The world cries out for repair. While some people in the world are well off, many more live in misery. Ironically, the magnitude of the problem defies easy recognition. With the global population exceeding six billion people, it is difficult to paint a vivid and compelling picture of social life. In the extreme, Bales (1999) conservatively estimates that there are 27 million slaves in the world today, while Attaran and Sachs (2001) report that 35 million people are now infected with the HIV virus, 95 percent of them living in sub-Saharan Africa. Even more broadly, aggregate statistics both inform and numb. Compiled from data released by the World Bank (2002), Table 1 represents the kind of snapshot that such statistics provide. Living in the United States, it is shocking to learn that so many people live on less than \$2.00 per day, or that a quarter of the children in Bangladesh and Nigeria are at work in their nations' labor force, or that some countries have under-five mortality rates more than ten times our own. Indeed, access to sanitation, well enough access to a telephone or computer, can be very limited around the world.

INSERT TABLE 1 ABOUT HERE

Closer to home, the picture may be more vivid and compelling. For twenty years, Americans lived through a period of unparalleled prosperity. Ibbotson Associates (2000) calculated that in real terms, a dollar invested in large company stocks in December 1925 was worth \$24.79 by year-end 1979. Exactly twenty years later, that dollar was worth \$303.09. Nevertheless, the fact that the upper echelon of society disproportionately reaped these gains is no longer news. Even as debate persists about inter-country income inequality (Firebaugh, 1999), Galbraith (1998), and Mishel, Bernstein, and Schmitt (1999) provide a comprehensive picture of wealth inequality in America, while Conley (1999) clearly points out that many Black Americans have been left out of this economic boom. In real terms, Americans in the 90<sup>th</sup> percentile enjoyed a 6.4 percent wage increase from 1979 to 1997; those in the 80<sup>th</sup> percentile saw an increase of only .4%; and those in the 10<sup>th</sup> through 70<sup>th</sup> percentiles actually lost between 14.9 and 3.9 percent (Mishel et al., 1999: 131). Table 1 also provides a comparative portrait of how the top ten percent of the people in each of the world's thirteen largest countries control so much more of each nation's wealth than those in the bottom ten percent. Miringoff and Miringoff (1999) chronicle these same kinds of inequality data but also provide evidence that child abuse, child poverty, teenage suicide, and violent crime, as well as the number of people

living without health insurance, have all increased in the United States since the 1970s. These kinds of data serve as a stimulus for outrage and reform (Korten, 1995; Greider, 1997; Wolman and Colamosca, 1997; Kapstein, 1999; Madeley, 1999).

In the face of these broad and deep problems, calls go out for companies to help. All three branches of the United States government have addressed the role of the corporation in promoting social welfare. President Bush and Secretary of State Powell have asked companies to contribute to a global AIDS fund (*New York Times*, 2001), while Former President Clinton used his “bully pulpit” to urge corporations to attend to social problems (*New York Times*, 1996) and later advocated that minimum labor standards be a part of international trade agreements (*New York Times*, 1999). With the Economic Recovery Act of 1981, Congress increased (from 5 percent to 10 percent) the allowable corporate tax deduction for charitable contributions (Mills and Gardner, 1984). Even as a majority of states were adopting “other constituency statutes,” statutes that allow directors to attend to factors besides shareholder wealth maximization when fulfilling their fiduciary duty (Orts, 1992), the Delaware Court endorsed this same idea in 1989 when it allowed Time’s management to reject a lucrative tender offer from Paramount Communications to pursue other non-shareholder related interests (Johnson and Millon, 1990).

Activity beyond the halls of government that focuses on the corporation’s role in society is equally intriguing. Non-governmental organizations (NGOs) have worked tirelessly in recent years to establish worldwide standards for corporate social accountability – Ranganathan (1998) lists forty-seven such initiatives – and investors have pressured firms to be more responsive to social problems (e.g., Carleton, Nelson, and Weisbach, 1998). Major charitable foundations and public interest groups – the Ford Foundation, the Sloan Foundation, and the Aspen Institute, to name three of the most prominent – have launched major initiatives to investigate and even encourage business investment in redressing societal ills. Public intellectuals, including leading business school academics whose prior contributions shaped the fields of corporate strategy and organizational behavior, have joined the call to encourage and guide firms in taking on a larger role in society. Michael Porter celebrated the competitive advantage of doing business in the inner city (1995); Rosabeth Kanter (1999) identified ways in which public-private partnerships advance

corporate innovation; and C.K. Prahalad (Prahalad and Hammond, 2002; Prahalad and Hart, 2002) mapped the untapped economic opportunities that reside in what he calls the bottom of the world's wealth pyramid.

Business leaders and firms themselves are even responding to calls for enhanced corporate social responsibility. From mavens, such as the Body Shop's Anita Roddick, to converts, such as British Petroleum's John Browne, some business leaders are preaching – and at least trying to practice – an approach to business that affirms the broad contribution that companies can make to human welfare, beyond maximizing the wealth of shareholders. On a larger scale, the United States Chamber of Commerce, representing tens of thousands of business interests worldwide, recently founded the Center for Corporate Citizenship, whose purpose is to provide an institutional mechanism to assist humanitarian and philanthropic business initiatives around the world.

The repeated calls for corporate action to ameliorate social ills reflect an underlying tension. On the one hand, misery loves companies. The sheer magnitude of problems, from malnutrition and HIV to illiteracy and homelessness, inspires a turn toward all available sources of aid, most notably corporations. Especially when those problems are juxtaposed to the wealth-creation capabilities of firms – or to the ills that firms may have helped to create – firms become an understandable target of appeals. On the other hand, a sturdy and persistent theoretical argument in economics suggests that such corporate involvement is misguided. It may be neither permissible nor prudent to devote corporate resources to redress social misery (Friedman, 1970; Easterbrook and Fischel, 1991; Sternberg, 1997). Calls for broader corporate responsibility, therefore, constitute an effort to surmount the presupposition that such corporate action is illicit. With social misery and the imperative of corporate involvement, on the one hand, and the skeptical economic rationale, on the other, attempts to mobilize corporate social initiatives reach an intense pitch.

Our aim in this paper is to appraise and expand the current state of organizational scholarship surrounding corporate social initiatives. In the first part of the paper, we assess how organization theory and empirical research have thus far responded to this tension over corporate involvement in our social life. In particular, we begin by reviewing the source of the tension – economic accounts of corporate responsibility – and then critique extant theoretical and empirical work in that light. We conclude that organizational

scholarship has an unexploited opportunity to address this underlying tension and respond to the calls for corporate involvement in redressing social misery. We close the paper by outlining a new research agenda for organizational inquiry into corporate social initiatives. Adopting a pragmatic stance, we introduce a series of research questions whose answers will reveal the descriptive and normative dimensions of organizational responses to social misery.

### **THE POINT OF TENSION**

Appeals for corporate involvement in ameliorating malnutrition, infant mortality, illiteracy, pollution, pernicious wealth inequality, and other social ills quickly implicate a long and contentious debate about the theory and purposes of the firm. Despite a long history of communitarian protest (Morrissey, 1989), Bradley, Schipani, Sundaram, and Walsh's (1999) review of these efforts found that a contractarian perspective has prevailed. Reaching a similar conclusion, William Allen, former Chancellor of the Delaware Court of Chancery, stated, "One of the marks of a truly dominant intellectual paradigm is the difficulty people have in even imagining an alternative view" (Allen, 1993: 1401). Although organizational and legal scholars (Bratton, 1989a, 1989b; Davis and Useem, 2000; Paine, 2002) question the contractarian model and adumbrate alternative views, they also acknowledge the purchase this economic model of the firm has had upon corporate conduct, law, and scholarship. The purpose of the firm, from a contractarian perspective, is perhaps best captured by the landmark 1919 *Dodge v. Ford* decision: "A business organization is organized and carried on primarily for the profit of the stockholders" (Michigan, 1919). The assumption that the primary, if not sole, purpose of the firm is to maximize wealth for shareholders has come to dominate the curricula of business schools and the thinking of future managers, as evidence from a recent survey of business school graduates reveals (Aspen Institute, 2002). Investigating corporate social initiatives presents a rich scholarly opportunity in part because the economic account suggests that there should be no such initiatives to investigate in the first place.

The contractarian view of the firm – or, to be more accurate, the economic version of contractarianism – challenges the legitimacy and value of corporate responses to social misery. The specific challenges come in three distinct forms. They range from saying that firms already advance social welfare to

the full extent possible, to saying that societal problems are best solved by freely elected governments, to saying that if firms do get involved, they must warn their constituencies so they can protect themselves from corporate misadventures. The first point of view defends the economic contractarian model by invoking the same aim that stimulates efforts to enlist companies to cure social ills. For example, Jensen (2002: 239) argued, “200 years’ worth of work in economics and finance indicate that social welfare is maximized when all firms in an economy maximize total firm value.” Jensen conceded that companies must attend to multiple constituencies in order to succeed, but ultimately firms must be guided by a single objective function: wealth creation. He argued that it is logically incoherent and psychologically impossible to maximize performance along more than one dimension – calculating tradeoffs and selecting courses of action become intractable. Although any single objective could satisfy the logical and psychological requirements, Jensen concluded that long-term market value is the one objective that best advances social welfare. Those subscribing to this view believe that if shareholder wealth is maximized, social welfare is maximized as well. In the end, the challenge for firms to invest in social initiatives is no challenge at all.

Friedman’s (1970) well-known criticism of corporate social responsibility took direct aim at any firm that contemplates such activity. He construed these investments as theft and political subversion: in responding to calls for socially responsible practices, executives take money and resources that would otherwise go to owners, employees, and customers – thus imposing a tax – and dedicate those resources to objectives the executives, under the sway of a minority of voices, have selected in a manner beyond the reach of accepted democratic political processes. Friedman did not deny the existence of social problems; he simply wanted the state to address them.

The third form of the economic argument against corporate social initiatives deems them dubious but, provided they are disclosed, unobjectionable. As long as the contracting parties are clear about the firm’s intentions, even if those intentions include something other than wealth creation, Easterbrook and Fischel (1991: 36) argued, “no one should be allowed to object.” However, as they went on to conclude, “one thing that cannot survive is systematic efforts to fool participants” (Easterbrook and Fischel, 1991: 37). They were wary of corporate social investments and, like Jensen, trusted property rights and the invisible

hand of the market to solve most social problems. However, if all contracting parties know that the firm plans to make a social investment, no matter how ill conceived, then those parties can decide if they want to be a part of the venture. The market will ultimately sort out whether it is the best use of a firm's resources.

The point of tension between a nexus of contracts approach to the firm and those who push for corporate social involvement can thus be distilled to two central concerns: misappropriation and misallocation. When companies engage in social initiatives, the first concern is that managers will misappropriate corporate resources by diverting them from their rightful residual claimants, the firm's owners. Managers also misallocate resources by diverting those best used for one purpose to advance purposes for which those resources are poorly suited. From this perspective, managers' social initiatives are akin to using a dishwasher to wash clothes. While economic contractarians may be as committed to ameliorating human misery as anyone, they see no reason for a corporation to divert its resources to solve society's problems directly. Corporations can contribute best to society if they do what they do best: employ a workforce to provide goods and services to the marketplace and, in so doing, fulfill people's needs and create wealth.

The challenge facing those who advocate corporate social initiatives then is to find a way to promote social justice in a world where this shareholder wealth maximization paradigm reigns supreme. This daunting task has attracted many business academics over the years. They hope that their scholarship will play a central role in sorting out the relationship between shareholders, with their economic interests, and society, with its interest in broader well-being and human development. The reformers' challenge has been to demonstrate that corporate attention to human misery is perfectly consistent with maximizing wealth: that there is, in the words of United Nations' Secretary General Kofi Annan, "a happy convergence between what your shareholders want and what is best for millions of people the world over" (Annan, 2001).

### **SCHOLARSHIP IN ORGANIZATION STUDIES**

Aware of human suffering and alert to the challenge from economic contractarianism, organization theorists and empirical researchers have sought to identify a role for the firm beyond maximizing shareholder wealth – while preserving the contractarian foundations of the firm and a place for wealth maximization. In

this light, empirical research has largely focused on establishing a positive connection between corporate social performance (CSP) and corporate financial performance (CFP). First appearing in 1971, these studies were offered as something of an antidote to a public conversation that was quite skeptical of corporate social responsibility (Levitt, 1958; Friedman, 1970). The now 30-year search for a correlation between CSP and CFP reflects the enduring quest to find a persuasive “business case” for social initiatives, to substantiate the kind of claims that Kofi Annan recently made to U.S. corporations: “by joining the global fight against HIV/AIDS, your business will see benefits on its bottom line” (Annan, 2001). A dozen years after the publication of the first CSP-CFP studies, stakeholder theory (Freeman, 1984) began to take shape as the dominant theoretical response to the economists’ challenge. It aims to establish the legitimate place for parties other than shareholders, whose interests and concerns can defensibly orient managers’ actions. With a body of empirical work and a rival theoretical model of the firm, organization studies has tried to address the economists’ fundamental challenge by establishing some ground to license direct corporate involvement in ameliorating social misery. However, we argue that the resulting empirical findings and theoretical propositions restrict organizational scholarship from developing a more expansive approach to understanding the relationship between organizations and society. We will begin by appraising the 30-year CSP-CFP empirical research tradition and then consider the status of stakeholder theory. We then use this summary and critique as a springboard to develop an alternative scholarly agenda.

### **The Empirical CSP–CFP Literature**

Between 1971 and 2001, one hundred twenty-two published studies empirically examined the relationship between companies’ socially responsible conduct and their financial performance. Narver (1971) published the first study, with 19 other studies following during the 1970s, 30 in the 1980s, and 66 in the 1990s. In the most recent five-year period from 1997 through 2001, researchers published 35 new studies. Notwithstanding a long empirical history, interest in this question seems to be gaining momentum.

Corporate social performance is treated as an independent variable, predicting financial performance, in 105 of the 122 studies. In these studies, fewer than half the results (48.5 percent) point to a positive relationship between corporate social performance and financial performance. Only 7 percent found a

negative relationship; 26 percent reported non-significant relationships, while 19 percent reported a mixed set of findings. Corporate social performance is treated as a dependent variable, predicted by financial performance, in 21 of the 122 studies. In these studies, the majority of results (71 percent) point to a positive relationship between corporate financial performance and social performance. Four studies investigate the relationship in both directions, which explains why there are more results than studies. Table 2 reports which authors found which results, including negative, mixed, and non-significant relationships.

INSERT TABLE 2 ABOUT HERE

A clear signal emerges from these 122 studies. There is a positive association, and certainly very little evidence of a negative association, between a company's social performance and its financial performance. Concerns about misappropriation, and perhaps even misallocation, would seem to be relieved. If corporate social performance contributes to corporate financial performance, then a firm's resources are being used to advance the interests of shareholders, the rightful claimants in the economic contractarian model. Concerns about misallocation recede as well. If CSP is contributing to CFP, then the firm is being used to advance the objective for which it is best suited, maximizing wealth. Although it can be argued that a company's resources might be used to produce even more wealth, were they devoted to some activity other than CSP, studies of the link between CSP and CFP reveal little evidence that CSP destroys value, injures shareholders in a significant way, or damages the wealth-creating capacity of firms. The empirical relationship between CSP and CFP would seem to be established, and the underlying economic concerns about CSP alleviated. Even as research into the relationship between CSP and CFP addresses the objections posed by economic contractarianism, however, a closer look at this research suggests that it opens as many questions as it answers about the role of the firm in society. We examine how these efforts to identify the relationship between CSP and CFP have this paradoxical effect.

### **A Paradoxical Appraisal**

What appears to be a definite link between CSP and CFP may turn out to be more illusory than the body of results suggests. The steady flow of research studies reflects ongoing efforts both to resolve the tension between advocates and critics of corporate social performance and to shore up the methodological

and theoretical weaknesses in past studies. The unintended consequence of these ongoing efforts has been to open a series of questions that strike at the core of the research enterprise itself. Ironically, the CSP-CFP literature reinforces, rather than relieves, the tension surrounding corporate responses to social misery. By assaying the financial impact of corporate social performance, organizational research helps to confirm the economic contractarian model. At the same time, it leaves unexplored questions about what it is firms are actually doing in response to social misery and what effects corporate actions have, not only on the bottom line, but also on society. Taking stock of the entire body of empirical work, we illuminate these limitations by examining the research samples that have been examined, how the causal connection between CSP and CFP has been specified, and how the CFP and CSP constructs have been conceived and measured.

**Sampling.** The companies that attract researchers' attention raise questions about why those companies engage in CSP. Specific conditions may influence these firms to engage in CSP, lest they suffer economic penalties. As a result, the conclusions that can be drawn from the CSP-CFP results are unclear. More than one half of the extant 122 studies examine exemplary "saints" (typically the *Fortune* ranking of the most admired companies in America), notorious "sinners" (typically firms in such notoriously dirty industries as chemicals, oil, pulp and paper, steel, and textiles), or very large companies (typically the *Fortune* 500).

The tendency to rely on prominent companies, whether prominent in size or conduct, compromises efforts to establish causal inferences about the CSP-CFP relationship. It does so in two ways. First, with over ten thousand publicly traded companies in the United States, samples that favor large companies are not representative. This concern is not new to organization theory (Granovetter, 1984; Aldrich, 1999), and given their significant impact upon society (Perrow, 2002), large organizations may well be an appropriate starting point for understanding corporate responses to social misery. The familiar critique about sample selection, however, holds particular importance in this research domain. As Cottrill (1990) and Fry and Hock (1976) suggested, firm size and visibility may be key determinants of a corporation's social investments. Conclusions about the positive financial effects of CSP may have as much to do with the types of firms being examined as they do with the wealth-enhancing benefits of CSP itself. Firms in notorious industries – such

as heavily polluting ones – or those with obvious public contact are more likely to be pressed for involvement in social initiatives. Indeed, Seider’s (1974) study of 474 speeches made by top executives in 11 industries from 1954-1970 found that oil, retail, and automotive executives turned out to be the most socially responsible in their statements. Moreover, Fry, Keim, and Meiners (1982) found that charitable contributions corresponded to the extent of a company’s public contact. What about other firms, neither the biggest, the most visible, nor the worst? If the research aim is to understand how and why social performance and financial performance are connected, then it is crucial to acknowledge empirically that the nature of this connection may depend upon characteristics of the firm.

There is a second problem posed by favoring certain samples. The majority of studies focus on the natural environment. In terms of data quality, this is good news. Thanks to government regulation, valid and reliable data are available about corporate environmental conduct, either directly from government records, or from such third parties as the Council on Economic Priorities and Investor Responsibility Research Center. Despite the availability and quality of these data, researchers investigating environmental practices enter a world unto themselves. There is good reason to argue that environmental practices are not representative of social performance more broadly, especially in how they bear upon financial performance. As Jaffe, Peterson, Portney, and Stavins (1995: 158) noted, “for all but the most heavily regulated industries, the cost of complying with federal government regulation is a relatively small cost of production.” Exceptions they named include electric utilities, chemical manufacturers, petroleum refiners, and basic metal manufacturers – industries that form the focus for many of the CSP–CFP studies. In other industries, “labor cost differentials, infrastructure inadequacy, and other factors would indeed overwhelm the environmental effect” (Jaffe et al., 1995: 158). The effect that social performance has upon financial performance in polluting industries is not necessarily generalizable to other industries, where other costs will outweigh the effect of CSP costs. Therefore, looking at polluting industries magnifies the impact environmental performance seems to have upon financial performance. Moreover, looking at environmental performance as an indicator of broader social performance distorts the inferences that might be drawn. Regulation is thick and well established in the environmental domain. This regulation intensifies the bottom-line implications of

positive and negative environmental performance. But we are left wondering how firms respond, and how they are to respond, when neither penalties nor rewards make wealth-maximization and social performance converge – when a true tradeoff may exist.

**Causal connections: Controls, timing, and mechanisms.** The discussion of organization size, regulatory intensity, and resource scarcity serves as a reminder that a firm's financial performance is a function of multiple factors in addition to a firm's social initiatives (Schmalensee, 1985; Capon, Farley, and Hoening, 1990; Rumelt, 1991; McGahan and Porter, 1997; McGahan, 1999). When researchers are trying to predict financial performance, standard economic theory compels us to investigate the other factors that bear on performance. The set of controls used in CSP-CFP studies indicates the extent to which organizational researchers have tried to connect their work to economic reasoning, but the variety of controls makes it difficult to compare results across the studies. While industry (N=46), company size (N=36), and market risk (N=22) are measured in many of the studies, twenty-four of the 122 studies employed no controls whatsoever. Seventy-two different controls were investigated in the remaining 98 studies. Without a consistent set of controls, the accumulated body of knowledge about the CSP–CFP link is not as sound as it first appears. The extent to which CSP effects represent a confounding with these largely unmeasured third variables is not known.

To determine how CSP provides an advantage that manifests itself in CFP, research would need to unearth the mechanisms that connect the two. However, the source of the connection has rarely been systematically investigated. Few have even taken the preliminary step to posit the timing of the relationship. If social performance does contribute to financial performance, then when would that impact be revealed? Not many studies address this question or its converse. Aside from the 20 event studies, which are designed to examine the stock market reaction to a discrete event, only 22 of the 102 remaining studies incorporate a time lag when they test the relationship between social and financial performance. This ambiguity about the timing of the relationship stems from a larger theoretical issue. Despite ongoing investigation into the link between social and financial performance, little attention has been devoted to specifying the causal mechanisms that might account for an observed link.

Few scholars in organization studies have explored the causal mechanisms linking CSP to CFP. Turban and Greening's (1997) evidence suggested that the beneficial financial effect arises from the quality of employees attracted to firms engaged in CSP, whereas Bartel's (2001) findings suggested that benefits accrue to companies from the identity-enhancing effects employees experience in volunteer programs. Berman, Wicks, Kotha, and Jones (1999) tested the possibility that a firm's strategic orientation constitutes the causal link, and they found mixed support. These encouraging steps notwithstanding, researchers have been preoccupied with demonstrating that CSP converges with economic premises about the firm. As a result, an opportunity distinctively suited to organizational research has largely been missed: going inside the firm both to understand the selection and management of social initiatives and to unearth how a connection to CFP either materializes or fails to.

**Financial performance.** Measuring financial performance might seem to be a straightforward task, but consider the empirical record. There is little measurement consensus. Financial performance is measured in 70 different ways in the 122 studies. Accounting and market measures abound, with some in each category reflecting returns (14 accounting measures and 12 market measures) and some reflecting risk (11 accounting measures and 3 market measures). Although the largest number of studies assesses return on equity (N=44) and return on assets (N=34), or some variant of the two, there is little agreement about how best to assess performance. Some may see this kind of measurement diversity as a source of strength if effects are robust across measurement approaches. Others may see this assortment as a sign of weakness, for it is difficult to compare and aggregate such a heterogeneous collection of findings. The ideal situation is to deploy multiple measures; each study would contain a common measure as well some other approach.

The choice between employing an accounting rate of return or a stock market return carries theoretical implications (Hillman and Keim, 2001). The two sets of measures represent different perspectives on how best to evaluate a firm's financial performance (Holthausen and Larcker, 1992). Accounting measures capture past performance and thus indicate how that historical record has been influenced by, or went on to influence, social performance. In contrast, market measures are forward looking, taken to reflect estimates about the net present value of expected future earnings. Market measures

indicate shareholder expectations about the impact socially responsible practices will have upon future earnings.

Both market and accounting measures of performance may be suited to answer questions about the CSP–CFP link. Of the extant 122 studies, 47 used a market measure of performance; 43 used an accounting measure; 24 used both market and accounting measures; 8 used some other measure of performance. Research would be enhanced if the choice of prospective or historical performance measures were theoretically driven. Without a clear causal theory linking CSP and CFP, the prudent approach is to use both sets of measures and let the empirical evidence inform our theoretical understanding (e.g., Spicer, 1978; Chen and Metcalf, 1980; McGuire, Sundgren, and Schneeweis, 1988; and McGuire, Schneeweis, and Branch, 1990). Because the quest for a CSP-CFP link is intended to unearth the way CSP creates or destroys shareholder wealth, then the appropriate common measure of financial performance may well be a market measure. Omitting market measures in favor of accounting measures seems at odds with the fundamental claim CSP-CFP research seeks to advance. There are times, of course, when an accounting measure may be appropriate as well. Ogden and Watson (1999), for example, demonstrated that costly practices targeted at certain stakeholders reduced profitability, an accounting measure, but did not reduce the expectations of future returns, a market measure.

**Social performance.** Determining how social and financial performance are connected is further complicated by the lack of measurement consensus surrounding CSP. CSP has been measured by a variety of multidimensional rating criteria, such as the use of the Kinder Lydenberg Domini (KLD) rating system (Waddock and Graves, 1997; Berman et al., 1999), a survey of business students (Heinze, 1976) or business faculty members (Moskowitz, 1972), or a company’s reputation among business executives, as seen in the *Fortune* surveys (McGuire, Sundgren, and Schneeweis, 1988; McGuire, Schneeweis and Branch, 1990; Herremans, Akathaporn and McInnes, 1993; Preston and O’Bannon, 1997). CSP has also been assessed by noting a firm’s conduct in South Africa (Meznar, Nigh, and Kwok, 1994; Teoh, Welch, and Wazzan, 1999), the presence or absence of women and minority directors (Lerner and Fryxell, 1988), the quality of an organization’s environmental management record (Russo and Fouts, 1997; Dowell, Hart, and Yeung, 2000),

and the magnitude of a company's philanthropic contributions (Fry, Keim, and Meiners, 1982; Galaskiewicz, 1997). The difficulty encountered in measuring CSP is endemic to the two methods of measuring the construct: subjective evaluations and behavioral indicators. Each measurement method casts doubt upon what in fact constitutes corporations' actual social performance.

**Subjective indicators.** Gathering the opinions of informed observers has been a persistent approach to measuring social performance. It preserves the notion that there is a discernible, unified CSP construct, yet it dodges the need to specify that construct's content. Early work relied on the surveyed judgments of business school students and people in business to assess the social performance of corporations (Vance, 1975; Heinze, 1976; Sturdivant and Ginter, 1977; Alexander and Buchholz, 1978; Cochran and Wood, 1984; Belkaoui and Karpik, 1989). Scholars' observations of CSP leaders and laggards also formed the basis of initial attempts to investigate the link to financial performance (Moskowitz, 1972; Vance, 1975; Cochran and Wood, 1984). Although evaluation by informed third parties is sometimes lauded in organizational research (Snow and Hambrick, 1980), relying upon this method imposes significant limitations for research about corporate social performance.

These limitations are manifest in the recent work that has drawn extensively on the annual *Fortune* magazine survey of the most admired U.S. corporations. Appearing in 17 studies, the *Fortune* rankings are the most commonly used source of data for measuring social performance. It is unclear just what these subjective indicators measure, however. For example, the *Fortune* rankings of social responsibility have been shown to reflect a firm's past financial performance (Brown and Perry, 1994). Therefore, studies that use the *Fortune* rankings may be using financial performance, in the guise of social performance, to predict itself. Another new reputation index, one using the Harris-Fombrun reputation quotient, reveals similar bias problems. Recently, Johnson and Johnson emerged as the top company overall, and number three in social responsibility (Alsop, 1999). However, the company's reputation may owe as much to an availability bias (Tversky and Kahneman, 1974) as it does to its actual performance. Despite Johnson and Johnson's wide acclaim for its credo and handling of the 1982 Tylenol poisoning, its record on social performance is subject to far greater doubt (Badaracco, 1997).

Even if free of biases and focused on specific information about a company's performance, observers can draw different conclusions about a corporation's social performance. For example, the Environmental Protection Agency and the Nature Conservancy celebrated General Motors in 1999 for its air-quality initiatives at the annual meeting of Business for Social Responsibility. Yet at the very same time, the company was targeted by activists from the Ozone Action Coalition at the University of Michigan, calling upon the University to divest itself of holdings in GM because of the company's stance on the Kyoto Protocol to reduce emissions (Grass, 1999). Different parties may arrive at different assessments of the same company.

Whether it is the perspective of the judge, his or her inference process, or the underlying information that differs, constructing an informed evaluation of a company's social performance is not at all straightforward. Even as the work of theoretically specifying and empirically unearthing the content of CSP proceeds, observers' judgments may well be a handy means of operationalizing CSP. By asking evaluators simply to assess a company's social performance, subjective indicators are designed to sidestep the difficulty of specifying CSP. What is being measured, though, when the standards observers are using are unclear? Since the basis upon which evaluators come to their judgments remains unspecified, caution is warranted in interpreting CSP-CFP results. Those who continue to pursue CSP research will need to conduct reliability and validity assessments of this measurement approach. Perhaps more significant, as CSP-CFP studies proliferate, reliance on subjective indicators brings the research lens no closer to actual corporate activities and their impact on society. Corporate social performance may be found to relate positively to financial performance, but our understanding of what constitutes corporate social performance remains in an underdeveloped state.

**Behavioral indicators.** Aware of the limitations of subjective measurement, some researchers have used behavioral indicators to measure a firm's social performance. Next to the *Fortune* rankings, researchers most frequently turn to official corporate disclosures to assess a firm's CSP – both in 10Ks filed with the Securities and Exchange Commission (SEC) and in annual reports to shareholders. Seventeen studies examined disclosures; five of them used the Ernst and Whinney (originally Ernst and Ernst) survey of

social performance disclosures, an annual survey that emerged and disappeared with the push for corporate social responsibility in the 1970s (*Business Week*, 1972). Of the seventeen, four use disclosure itself as the sole indicator of CSP, while the other thirteen measure a variety of items being disclosed, in five instances also including disclosure itself as an indicator of social performance. In addition to the seventeen studies using corporate disclosures, another seven measure social performance by conducting content analyses of annual reports. Despite the popularity of these objective sources, there is no way to determine if the social performance data revealed by corporations are under-reported or over-reported. Verrecchia (1983) pointed out that firms may be motivated to both share and conceal information, regardless of whether the news is good or bad. When it comes to reporting CSP, impression management and disclosure risks may render behavioral indicators inaccurate.

Information about corporate social performance is open to questions about impression management (Esrock and Leichty, 1998). First of all, we know that not all companies are eager to appear to be socially responsible. Firms in the US and UK are more likely to display CSR images on their web pages than are their counterparts in the Netherlands and France (Maignan and Ralston, 2002). Second, symbolism as well as substance both shape corporate messages (King and Lenox, 2000). Philip Morris, for example, spent approximately \$75 million per year on charitable activities but launched a \$100 million corporate-image campaign in 1999 to publicize its charitable actions (Levin, 1999). In a study of institutional investors' attitudes toward social performance disclosures, Teoh and Shiu (1990: 75) quoted one institutional investor who observed, "Companies that disclose information of this kind would not necessarily have a particularly good record in social areas." Indeed, that is just what Wiseman (1982) found with regard to environmental performance.

Impression management may contaminate data in more subtle ways (Westphal and Zajac, 1998). Several studies found that the disclosure of social performance activities (Blacconiere and Patten, 1994; Blacconiere and Northcut, 1997), and, in particular, certain types of disclosure (Freedman and Stagliano, 1991), mitigated the negative stock market effects that struck when a disaster occurred or a new regulation was enacted. But this effect is independent of the accuracy of the disclosed information. Therefore, the

supposedly objective information used to assess the link between CSP and CFP may rest on measures of social performance that may be neither valid nor reliable.

The dearth of direct information about a firm's actual social performance may be even more troubling than coming to grips with companies' image burnishing activities. The selective disclosure of information about corporate philanthropy, for example, inspired one U.S. representative to introduce legislation mandating that companies report their charitable donations (Gillmor and Bremer, 1999). Legal scholars have also recently called for SEC regulation requiring more extensive disclosure of charitable activities (Kahn, 1997; Bagley and Page, 1999). Without regulatory coercion, crosscutting motives confound managers' decisions to disclose their activities in this domain. Such regulations may serve to prompt managers to reveal their activities or conversely, hide such investments. Managers clearly face disclosure risks, risks that may or may not be attenuated by mandated transparency.

Companies that invest in corporate social performance face three kinds of disclosure risk. The first two speak to the criticisms a firm may face for making such investments. First, disclosing information about CSP exposes management to disapproval from those who adhere to the neo-classical economic conception of these activities. If a firm's financial performance is strong, critics may complain that the firm is unfairly taxing shareholders for its CSP initiatives. If a company encounters financial difficulties, its socially responsible practices may become a lightning rod for protest. Those investments may serve as rhetorical ammunition, if not *prima facie* evidence, for arguments that the firm is mismanaged. Boeing faced criticism of this sort (Jennings and Cantoni, 1998; Gillmor and Bremer, 1999) for reporting a \$178 million operating loss in 1997 while simultaneously donating \$51.3 million to charity. Corporate social performance may even give critics an easy rationale to penalize or fire the CEO. Indeed, after finding a significant negative relationship between external perceptions of corporate social performance and executive compensation, Riahi-Belkaoui (1992: 36) concluded, "executives may be penalized for such activities."

Ironically, managers who make such investments expose themselves to humanitarian criticism too. Companies renowned for their social performance may be especially vulnerable to accusations of hypocrisy (Cha and Edmondson, 2002). This constitutes the second disclosure risk. Advocates who generally support

extensive corporate social performance can assail a firm's initiatives as well, especially when the company has been explicit about its social performance record. This has happened notably with the fight against breast cancer (Beam, 2000; Brenner, 2000) and with prominent companies such as Ben and Jerry's (Dreifus, 1994; Shao, 1994), The Body Shop (Entine, 1994), and Levi-Strauss (Katz and Paine, 1994; Sherman, 1997; Cassel, 2001). The danger of public criticism can provide sufficient motivation for even the most socially active corporations to keep the full extent of their deeds quiet.

The third disclosure risk threatens the motivation for corporate responses to misery. Managers may worry that the publicity that follows social investments might undermine the firm's ability to do good work. Publicity might corrupt well-intentioned motives. Attention and acclaim just might crowd out beneficence, undermining the motivation behind efforts to address social misery in the first place.

Executives may be inclined either to exaggerate their companies' social investments or keep them quiet, regardless of what their companies are doing and why they are doing it. Therefore, corporate disclosure seems to be a dubious basis for assessing corporate social performance. Its problematic nature indicates the significant role organizational research could play in systematically documenting how companies respond to social misery, in particular, and shape the societies of which they are a part, more broadly.

Measurement difficulties may well manifest a deeper problem. Efforts to substantiate the wealth-enhancing benefits that might follow corporate social performance still lack a clear sense of just what it is that is being endorsed. Despite successive efforts to define social performance (Wood, 1991a, 1991b; Clarkson, 1995; Wood and Jones, 1995), Clarkson (1995: 92) concluded that there are no definitions "that provide a framework or model for the systematic collection, organization, and analysis of corporate data." An omnibus construct capturing the multidimensional effects of a company on society may be a dubious possibility and of limited value for guiding research. While not born of the need to lend conceptual structure to CSP-CFP studies, stakeholder theory has emerged to serve that function. As the complementary theoretical response to the economic contractarian view of the firm, stakeholder theory has also provided a way of conceptualizing the effects of a firm upon society.

## **Stakeholder Theory**

Freeman (1984) brought a formal consideration of stakeholder relations to a burgeoning field of management scholarship nearly twenty years ago. Tracing its indirect roots back to Adam Smith's work in the 18<sup>th</sup> Century, he credited a 1963 internal memorandum at the Stanford Research Institute as the first formal introduction of the idea to the management community (Freeman, 1984: 31). Freeman's (1984) ideas provided a language and framework for examining how a firm relates to "any group or individual who can affect or is affected by the achievement of the organization's objective" (Freeman, 1984: 46). Since then, Donaldson and Preston (1995) counted more than a dozen books and 100 articles devoted to stakeholder theory; Wolfe and Putler (2002) counted 76 articles on the stakeholder theme published in just six journals in the 1990s. This flow of activity reflects the ongoing effort to specify and refine the theory's central propositions. The intuitive appeal of looking at the business corporation through something other than the eyes of its equity holders has inspired great efforts to translate that intuitive appeal into a theory. It has proven to be a challenging task.

**The theoretical core.** Stakeholder theory shares the contractarian premises of rival economic theories. It construes the organization as a web of contracts among diverse parties pursuing their respective interests (Donaldson and Dunfee, 1999; Keeley, 1988, 1995). For example, Freeman and Evan (1990: 354) described the firm as "a set of multilateral contracts among stakeholders," while Hill and Jones (1992: 132) explicitly connected stakeholder theory to the economic contractarian perspective: "Like agency theory, this paradigm suggests that the firm can be seen as a nexus of contracts between resource holders." The focus on contracting illuminates the rights and responsibilities that flow from explicit and implicit exchange relationships. Stakeholder models underscore the contractual responsibilities that managers and shareholders owe other parties in the web of exchange relationships that comprise the firm. These contractual duties are not meant to displace duties to shareholders but rather to stand alongside them. Stakeholder scholarship investigates questions of who counts, on what grounds, and how to order the claims of various stakeholders.

**Theoretical Development.** Stakeholder scholarship to date has largely been conceptual. By Wolfe and Putler's (2002) count, the conceptual papers in the 1990s outnumbered the empirical papers by a ratio of

nearly two to one (48 to 28). These efforts to elaborate and sharpen stakeholder theory's central principles and propositions have led major contributors to the area to decry a lack of consensus. Harrison and Freeman (1999: 483) discerned "relatively little agreement on the scope of the theory," while Jones and Wicks (1999: 206) suggested, "the stakeholder concept...is relatively vague and, thus, gives little direction to either the study or the practice of management." Three distinct scholarly initiatives have emerged to clarify and advance the theory. The first is a tripartite taxonomy proposed by Donaldson and Preston (1995). The second is a burgeoning agenda for descriptive research, and the third is an attempt, led by Jones and Wicks (1999), to integrate the different versions of stakeholder theory.

**Tripartite taxonomy.** Donaldson and Preston (1995) introduced an influential taxonomy that sorts stakeholder theory into three categories: descriptive, normative, and instrumental. Descriptive stakeholder theory focuses on whether and to what extent managers do in fact attend to various stakeholders and act in accord with their interests. Normative stakeholder theory explores whether managers ought to attend to stakeholders other than shareholders, and if so, on what grounds these various stakeholders have justifiable claims upon the firm. Instrumental stakeholder theory delineates and investigates the consequences – most notably, the economic benefits – that follow from attending to a range of stakeholders. Instrumental versions of stakeholder theory can either be descriptive in nature, positing and investigating the beneficial consequences that accrue to the firm, such as efficient contracting (Jones, 1995), or normative in nature, justifying the claims of stakeholders on the basis of the benefits that accrue to the firm from attending to those claims (Freeman, 1999; Freeman and Phillips, 2002; Jensen, 2002). Whereas Donaldson and Preston encouraged greater attention to normative questions about stakeholders, descriptive theory has been given the most consideration to date.

**Descriptive theory.** Descriptive stakeholder theory has formulated a series of testable propositions in three broad areas. The first set of propositions relates to the question of who matters: who actually gains the attention of managers? Mitchell, Agle, and Wood (1997) proposed that combinations of power, legitimacy, and urgency distinguish among types of stakeholders and then determine the extent to which managers will attend to their claims. A later empirical test offered some support for their ideas (Agle,

Mitchell, and Sonnenfeld, 1999). Jawahar and McLaughlin (2001) extended the question of who counts to consider when these different stakeholders might matter to a firm. They suggested that stakeholder importance varies with the stage of a firm's life cycle.

A second area of descriptive theory explores how stakeholders pursue their interests and, concomitantly, how their interests are formulated. For example, Frooman (1999) elaborated how various stakeholder parties engage each other in complex exchange relationships. Hinging his analysis on the role of power and dependence, he specified how stakeholders try to influence a firm. Mannheim (2001), in turn, examined the corporate campaigns that stakeholder groups may employ to influence corporate agendas. Rindova and Fombrun (1999) and Scott and Lane (2000) highlighted how influence might flow in the other direction when they discussed how the firm itself might shape stakeholder interests. Those interests, Wolfe and Putler (2002) cautioned, are not necessarily uniform, even within a single stakeholder group, thus suggesting the need for a more nuanced understanding of stakeholder interests.

Questions about which stakeholders bear influence and how they exercise that influence kindle efforts to formally model the relationships among various stakeholders. Stakeholder modeling thus constitutes a third area of descriptive theoretical development. Freeman (1984) initially modeled stakeholder relationships as a series of dyadic exchanges between stakeholders and the firm (Freeman, 1984), but Freeman and Evan (1990: 354) later posited the firm to be "a set of multilateral contracts among stakeholders." Grounded in an appreciation for feminist organization theory, Wicks, Gilbert, and Freeman (1994: 483) then elaborated these ideas to formally define the firm as "constituted by the network of relationships which it is involved in." Rowley (1997) has since applied formal network theory to stakeholder analysis, arguing that the complex and interdependent relationships among stakeholders must be examined dynamically.

**Integration.** Donaldson and Preston's (1995) taxonomy of three distinct theoretical categories has prompted debate about constructing a unified stakeholder theory. Jones and Wicks (1999) proposed a convergent stakeholder theory to bring normative and instrumental theory together. They argued that such a combined theory is at once empirically testable, morally defensible, and practically applicable. Instrumental

theory does the majority of the work to meet these ambitions. First, instrumental theory posits a testable empirical relationship between how stakeholders are treated and the consequences that follow for the firm (Berman et al., 1999). Second, instrumental theory provides much of the normative justification for treating stakeholders well. It rests that justification on the proposition that firms reap economic benefits from treating stakeholders well. For example, if a firm treats stakeholders in a manner that cultivates trust and cooperation, it will limit opportunism and so reduce the cost of social exchange (Jones, 1995). These economic efficiencies in turn justify this form of stakeholder treatment. Aside from providing normative justification, the economic benefit is thought to reflect the practicable contribution of convergent theory. Firms and individuals alike are drawn to the promise of economic efficiency.

The proposed integration of normative and instrumental stakeholder theory has triggered lively debate. Some organizational theorists question whether the philosophical methods of normative theory can be fully integrated with the empirical methods of descriptive and instrumental theory. Donaldson (1999), Gioia (1999), and Trevino and Weaver (1999) construed the two domains to be complementary but distinct. Deeper problems have been discerned as well. Donaldson (1999) and Gioia (1999) questioned just how practical convergent theory really is, and Freeman (1999) questioned the original tripartite taxonomy, deeming it an artificial separation of business and ethics (Freeman, 1994). As a result, he saw no need for reintegration.

**A Critique of Consequences.** The promise of stakeholder theory to offer a coherent and cogent alternative to the economic account of the firm rests, in part, on efforts to clarify vying versions of the theory and to elaborate a descriptive research agenda. These efforts, however, are impeded by a set of assumptions designed to accommodate economic considerations. It is taken to be a practical necessity that stakeholder theory revolves around consequences – consequences substantive enough to convince managers that stakeholders are worthy of attention (Freeman, 1999; Jones and Wicks, 1999). The instrumental value of attending to stakeholders thus looms large, whether it constitutes the core of a convergent theory or is designated as the most promising independent thesis to undergird stakeholder theory (Freeman, 1999; Freeman and Phillips, 2002). Despite the emphasis on consequences, stakeholder theory has handicapped

itself by focusing only on a limited set of consequences. As a result, rather than moving the study of organizations closer to an understanding of how managers balance competing claims on the firm, stakeholder theory has inadvertently dodged the most pressing questions about the relationship between organizations and society.

Whether it is specifying the nature and direction of exchanges among stakeholders, identifying which stakeholders receive managerial attention and when, or unearthing the specific content of stakeholder interests, a rich agenda awaits future descriptive research. However, this descriptive research agenda omits two key questions about consequences. First, what are the consequences for managers who must confront a panoply of stakeholders, diverse in interests and salience, all affected by the firm, exercising influence in ways sometimes subtle and sometimes blunt? Knowing whether, when, and how stakeholders gain managers' attention may be a first step, but understanding what managers do once stakeholders seize their attention is just as pressing. Understanding how managers handle stakeholders, and understanding the impact of these managerial actions, must be part of any future research inspired by stakeholder theory.

The second focus on consequences must look beyond the organization itself. To date, stakeholder theory has been a managerial theory. The focus of stakeholder management is framed from the point of view of the firm and those who manage it. Certainly the firm is important but what are the effects of the firm's actions on the stakeholders themselves? Firms' stakeholder practices vary in motivation, word, and deed. How do these corporate motives and practices affect society? We imagine that stakeholder theory would look quite different if it were to consider a broader set of effects. Rather than being about the importance of incorporating stakeholder concerns into the firm, stakeholder theory might specify how these concerns are in fact incorporated and then push to understand the conditions under which they will yield different effects on different parties.

Whereas consequences are overlooked in existing descriptive theory, instrumental stakeholder theory focuses squarely on consequences. Beneficial competitive or financial consequences justify the attention given to stakeholders. However, when those beneficial consequences either are not contingent upon a certain standard of stakeholder treatment, or when that treatment fails to produce those consequences, the range of

corporate conduct that is required, or even permissible, becomes much less clear. What happens when attention to stakeholder interests yields results that diverge from the wealth maximizing ambitions of its shareholders? This is precisely what may happen when we turn our attention to the effects of organizations on society and examine whether, for example, companies should divest from South Africa, diversify the demographic composition of their boards of directors, or join the fight to combat AIDS. The work of normative analysis is to explore the conditions under which different stakeholder claims deserve due consideration, and even preference. Should firms respond only when some connection to their wealth-creating purpose can be identified?

Freeman (1999) concluded that more work is needed to buttress any normative injunction for managers to pay attention to key stakeholders, and, he noted, “it is hard to see how such an argument can be connected to real firms and real stakeholders without some kind of instrumental claim” (235). Ironically, instrumental claims may get in the way of developing clear guidance when firms are simultaneously asked to maximize market value and redress social misery. Appealing to economic consequences certainly provides justification for action that is consistent with the neo-classical theory of the firm and the bottom-line concerns of managers. However, appealing to economic consequences also inhibits the range of inquiry necessary to address the most theoretically challenging, and perhaps most fundamental, questions about companies’ effects on society. Paradoxically, it may also leave managers bereft. In an effort to be practicable (Jones and Wicks, 1999), to “be connected to real firms and real stakeholders” (Freeman, 1999: 235), stakeholder theory may have in fact misplaced what is the central challenge for managers. As Gioia (1999: 231) argued, the central challenge for managers is “how to arrive at some workable balance” between instrumental and other moral criteria.

There are normative reasons to respect stakeholders independent of the ensuing financial benefits. Those reasons may be grounded, for example, in the beneficial consequences that result for specific stakeholders. Concerns about employee dignity and self-efficacy may prompt certain kinds of managerial behavior (Shklar, 1991; Hodson, 2001). Normative justification of stakeholder claims may also be grounded in principles of fairness and reciprocity (Applbaum, 1996; Phillips, 1997), fundamental rights (Donaldson

and Preston, 1995), or respect for the intrinsic worth of human beings (Donaldson and Dunfee, 1999). How do these grounds for action inform our perspective on the place of the firm in society? How can their implications for action, in the face of calls for corporate responses to ameliorate social misery, be sorted out alongside the compelling instrumental purpose of the firm to enhance material welfare and maximize wealth? It is here that organizational inquiry must go beyond efforts to reconcile corporate responses to social misery with the neo-classical model of the firm. The tension itself can serve as a starting point for theory and research.

A preoccupation with instrumental consequences may render a theory that accommodates economic premises, yet sidesteps the underlying tensions between the social and economic imperatives that confront organizations. Such a theory also risks omitting the pressing normative and descriptive questions raised by these tensions, which, when explored, might hold great promise for novel theorizing and for illuminating and addressing practical management challenges. How do firms navigate their way through these tensions? How ought they to do so? With the tension between wealth maximization and social amelioration squarely in focus, we now consider its potential as a starting point for scholarly inquiry.

### **Exploring the Antinomy**

We find ourselves thoroughly ensconced in an antinomy (Alexander, 1988; Poole and Van de Ven, 1989). From society's perspective, creating wealth and contributing to material well-being are essential corporate goals. The problem is that restoring and equipping human beings, as well as protecting and repairing the natural environment, are essential objectives too. Companies may be well designed to advance the first set of objectives, yet they operate in a world plagued by a host of recalcitrant problems that hamper the second set. The claims these vying objectives place on the firm are often difficult to reconcile and rank. Where economic contractarians see instrumental inefficiency in directing corporate resources toward redressing social misery, those who advocate broader corporate social initiatives see instrumental efficiency. From one perspective, firms are poorly equipped to address social misery, yet from another perspective, no matter how poorly equipped, companies may be best positioned to ameliorate the problems. This basic antimony has fueled organizational scholarship for many years. Nevertheless, the determined pursuit of a

CSP – CFP relationship and the attendant emphasis on instrumental stakeholder theory has left fundamental questions unaddressed.

Adopting the underlying assumptions of economic contractarianism, instrumental stakeholder theory, and the empirical research connecting CSP and CFP offer an alluring way to ease the tension with economics. The problem, as Tetlock (2000) points out, is that no concession to the instrumental and wealth-enhancing model of the firm will reconcile economic contractarians to stakeholder theory:

Disagreements rooted in values should be profoundly resistant to change. . . . Libertarian conservatives might oppose the (confiscatory) stakeholder model even when confronted by evidence that concessions in this direction have no adverse effects on profitability to shareholders. Expropriation is expropriation, no matter how prettified. And some egalitarians might well endorse the stakeholder model, even if shown compelling evidence that it reduces profits. Academics who rely on evidence-based appeals to change minds when the disagreements are rooted in values may be wasting everyone's time (Tetlock, 2000: 323).

Aside from failing to win over opponents, substantiating the instrumental benefits of corporate social performance may well be immaterial for another, equally salient, reason. Companies already invest in social initiatives. Moreover, these companies often invest for reasons that have nothing to do with instrumental consequences. Beyond the obvious point that researchers could not investigate the CSP–CFP relationship without evidence of CSP, companies' philanthropic contributions more than quadrupled, in real terms, between 1950 and 2000 (Caplow, Hicks, and Wattenberg, 2001). The cross-industry organization Business for Social Responsibility would not be able to count 1,400 members and commission a book to document the benefits that purportedly accrue from socially responsible practices (Makower, 1994) were such practices unknown. In keeping with Tetlock's (2000) insight, the reasons executives give for these social initiatives typically have more to do with an ineffable sense that this work is the right thing to do (Holmes, 1976; Galaskiewicz, 1997; Donnelly, 2001) than with the anticipated returns that shareholders will reap from these investments. Where the normative claims of economic theory challenge these corporate practices, these corporate practices challenge the empirical claims of economic theory. Why does CSP persist despite the disadvantages economic theory suggests it imposes upon firms? The existence of CSP begs empirical explanation rather than empirical justification.

Efforts to reconcile organizational research on corporate social performance with the economic model of the firm may turn out to be counter-productive. In order to make room for corporate responses to societal ills, organizational theory and research have acceded to economic contractarianism, relinquishing their own ideas about the problems to be investigated, the variables upon which to focus, and the methods to use for gaining insight (Alexander, 1988; Hirsch, Friedman, and Koza, 1990). For example, if corporate responses to social misery are evaluated only in terms of their instrumental benefits for the firm and its shareholders, we never learn about their impact upon society, most notably on the intended beneficiaries of these initiatives. Nor do we investigate the conditions under which it is permissible to act on stakeholder interests that are inconsistent with shareholder interests. Consider Meznar, Nigh, and Kwok's (1994) event study of firms announcing their divestment from South Africa or the event study of TIAA-CREF's board diversity initiatives (Carleton, Nelson, and Weisbach, 1998). Both corporate initiatives were met with negative market reactions. Does that mean that firms should have stayed to work with an apartheid government or that attempts to add African-Americans to boards of directors should be halted? Financial performance may not be the final arbiter of questions that implicate a range of values and concerns, even when firms are the actors. Rather than theorizing away the collision of objectives and interests, organizational scholars would do well to explore it (Alexander, 1988).

By adopting economic assumptions, organization theory and research handicaps itself in yet another way. It leaves organizations that seek to respond to these calls for social involvement bereft of prescriptive guidance for how to do so. Simply knowing that the economic tide is with them does not provide managers with insight about how to fulfill the responsibilities they choose to accept. Organizations face a vexing reality, where specific requests to help fight AIDS, support homeless shelters, or improve local schools do not evidently generate economic gains for the firm, and may well do just the opposite. The field of organization studies has been silent about these tradeoffs and dilemmas.

### **A Reorienting Perspective**

We propose an alternative starting point to generate the kind of theory and research that will enrich responses to classic questions about the firm and its role in society, perhaps alter the questions themselves,

offer a foundation for practical guidance, and even advance the conversation with economics. The grip of economic assumptions must be released in favor of an alternative premise, one that expands the focus of organizational scholarship. The need for fresh inquiry invites us to adopt a pragmatic stance toward questions about the firm's role in society. The pragmatic stance is articulated most clearly by William James:

Grant an idea or belief to be true, it [pragmatism] says, what concrete difference will its being true make in anyone's actual life? How will the truth be realized? What experiences will be different from those that would obtain if the belief were false? What, in short, is the truth's cash-value in experiential terms? (James, 1975: 97).

Let us assume that organizations, in fact, can play an effective role in ameliorating social misery. From that beginning, we then need to look at the consequences of acting on this belief. First, do companies indeed make a concrete difference in curing social ills when they act as though they can do so? The lens of research shifts away from confirming the consistency between corporate actions and economic premises about the firm. Research would instead focus upon unearthing the effects that corporate actions to redress social ills actually have. Second, how can the assumed truth that companies can be effective agents, not just of economic efficiency but for social repair, be realized? How can the concrete differences be achieved? This lays out a new direction for theory. What are the conditions under which, and the processes through which, the intended beneficiaries and institutions central to a healthy society indeed benefit from these corporate actions? To begin, systematic descriptive research is just as necessary to examine the consequences of corporate actions, as it is to identify their antecedents and the processes that bring them about.

To be clear, we are proposing an alternative starting point for inquiry into the role of the firm in society. We are not making a steadfast normative claim about the appropriate role for the firm in society. The pragmatic stance does not require other beliefs be relinquished. Those who believe that society is best served if companies focus solely on maximizing wealth can adhere to their convictions, as can those who believe that other stakeholders beyond the shareholder deserve attention whatever the repercussions for profitability. The aim here is to test a pragmatic belief, to determine if acting on the basis of that belief

produces the desired consequences. How those consequences are to be weighed and pursued relative to others is a matter for normative theory. Here too, organizational scholarship can extend its efforts.

The challenge for those who study organizations is to investigate what happens when it is assumed that instrumental efficiency and human beneficence, wealth maximization and the amelioration of social misery, shareholder rights and stakeholder rights all matter. How then are collisions among competing ends to be managed? Instead of trying to assert the legitimacy of one set of claims and deny the legitimacy of the other, theorists must undertake the task of working out the principles and guidelines for managing tradeoffs. A steadfast focus on financial performance may bear costs for society, much as responding to social ills may bear financial costs for the firm. There are times when each purpose seems compelling, whatever the consequences for the other. Therefore, the question is not whether to engage in these activities, but under what conditions. This demarcates a place for normative theory: specifying the conditions under which action in pursuit of financial and societal objectives, respectively, is prohibited, permitted, and obligatory.

#### **A NEW RESEARCH PATH**

The path for organization theory and research expands once the limitations of adhering to the economic contractarian model are acknowledged and an alternative pragmatic starting point is adopted. We will close by elaborating this new set of descriptive and normative questions. Whether one adopts an economic contractarian theory of the firm, an entity theory, or some pluralist integration of the two, and whether one adopts a narrow or broad rendering of that view, the firm is construed to play some role in society. Debate about the nature of that role will have implications for how expansive the firm's responsibility to society ought to be. Nevertheless, empirical research that examines the actual effects companies have on society, as well as theorizing about how best to evaluate those effects, can proceed even as debate persists. A host of questions remain unanswered about the firms that do and do not choose to respond to calls for more direct social involvement. Research that focuses on these questions may well contribute to a verdict on the propriety and prudence of these corporate actions.

#### **Corporate Responses to Social Misery**

A clear and comprehensive portrait of what firms are actually doing – and what effects their actions are having – is lost in the effort to assemble credible evidence that firms' attention to human misery is economically justifiable. Three central domains of descriptive inquiry beg for attention: the content, process, and consequences of these corporate initiatives.

**Content.** A starting point for understanding corporate responses to social misery is to paint a systematic portrait of which problems companies address (and do not address) and what sorts of activities they engage in when they do attempt to address those problems. Here we echo a recent call in psychology to investigate complex social phenomena as they occur in the real world, before we move to look at them through the lens of a particular theory (Rozin, 2001). In addition to identifying the character, range, and frequency of the problems addressed and the responses extended, research can also orient itself around the corporation as the unit of analysis. Which sorts of companies are involved in which types of problem areas? With a grasp of the problems themselves and the nature of corporate responses, research can next delve beneath the fact that firms are involved to explain the processes through which they manage this involvement.

**Process.** How do firms select the problems to address, design the activities intended to redress those problems, and then implement their solutions? These three questions suggest a broad outline for a research agenda that would probe the processes companies follow when they respond to societal ills. What criteria do companies use when they select problems to target? The magnitude of the problem, the company's related resources and capabilities, and network ties may be candidates to explain these selection decisions. Research can also unearth just who is involved, and how they manage the steps to identify a particular problem to address.

How the response itself is designed raises several important questions. First, how much do companies invest, in total and as a percent of available investment capital, in ameliorating societal ills? Economic logic suggests a level that meets a bare minimum for deriving benefits to the firm (e.g., enhanced reputation), whereas behavioral research suggests that standards of fairness (Kahneman, Knetsch, and Thaler, 1986), irrational by economic standards, may have some bearing. Second, whatever the amount, it is also

crucial to understand what set of factors and guidelines shape the allocation decision among various projects. Third, research should map the various ways that companies structure their social initiatives. Do they typically make year-to-year or multi-year commitments? Once firms determine what to do, how much to invest and over what time period, they face three options for executing their social initiatives: make, buy, or hybrid arrangement. When firms have some relevant capability (Dunfee and Hess, 2000), they may do the work themselves (the “make” option). Charitable contributions, the “buy” option, may be the design option when a firm lacks any specific capability to address a social need or when existing institutions have excellent capabilities in the area where the firm seeks to invest. A “hybrid” strategy, or partnership, may be the option of choice when the firm has something to give and gain from direct involvement (Austin, 2000; Bartel, 2001). A better understanding is needed of the conditions under which firms choose among these different investment modes and the conditions that cause companies to shift among them over time.

Once selected and designed, a corporate social initiative must be implemented. Little is known about how companies manage and discipline – and even disengage from – their social initiatives. Who is involved in running and evaluating these projects? What sorts of procedures and practices do they follow? With regard to discipline, calls for SEC-regulated disclosure of philanthropic contributions (Kahn, 1997; Bagley and Page, 1999; Gillmor and Bremer, 1999) suggest that monitoring mechanisms may be underdeveloped. Limited monitoring is accompanied by anemic evaluation. Porter and Kramer (1999), for example, document how even the charitable foundations that fund innovative philanthropic programs generally fail to explore the effectiveness of those programs. What criteria do companies use to assess the efficient and effective use of the resources they devote to curing societal ills? How do the different investment modes affect the implementation and discipline of these investments? In short, the governance processes that guide these social initiatives are an area ripe for investigation.

**Consequences.** Although the financial effects of corporate social performance have been extensively studied, little is known about any other consequences of corporate social initiatives. Most notably, as calls for corporate involvement increase, there is a pressing need to understand how corporate efforts to redress social misery actually affect their intended beneficiaries. Looking beyond the content of

corporate programs, we can ask which selection and design practices both increase the likelihood of beneficial consequences and diminish the likelihood of negative consequences. The process through which corporate activities are selected, designed, and implemented may also have significant effects on society more broadly. As firms become involved in fixing societal problems, what happens to public political processes? Some may consider Friedman's (1970) concerns alarmist, but asking companies to advance educational reform, assist with reproductive health, and fund cancer research does give firms and their executives significant influence over public policy typically considered to be the domain of elected officials. How does this affect the political sphere, most notably democratic processes and accountability? Understanding the consequences of corporate involvement – the impact on targeted problems and on the functioning of other civil and political institutions – lies at the heart of questions about the relationship between organizations and societies. Research into those consequences can help highlight the tradeoffs of seeking corporate involvement; inform decisions about when to involve and when to limit such corporate involvement; and guide policies for managing the consequences when they do get involved.

These considerations point to significant prescriptive questions that await answers. Once companies decide to respond to social misery, how can they best do so? Which companies should respond? Which problems are most amenable to corporate responses? What sorts of solutions are most fitting for which sorts of problems? How do firms best select, design, and implement these solutions? The answers to these questions all depend fundamentally on insight from descriptive research, but these kinds of practical questions hold normative implications, as well.

### **Normative Questions**

Whether a firm should respond to social misery depends upon the conception of the firm adopted. The conception of the firm, however, does not indicate which activities are warranted even when they may have deleterious effects on the firm's central purpose and role. The economic contractarian view of the firm, for example, seeks to preserve the efficient allocation of societal resources, thus imposing limits on the sorts of activities in which a firm can engage. However, when should concerns about efficient allocation be overridden? When is action warranted to reduce misery or to augment human capabilities, even though it is

considered to be inefficient from an economic perspective? The firm can also be viewed as a social entity with rights and privileges granted by the state in exchange for a broad responsibility to enhance social welfare (Bratton, 1989; Paine, 2002). Certain actions to fulfill that role, such as educational philanthropy, may nonetheless be prohibited under certain circumstances because of the deleterious effects of those actions. Those negative effects may bear upon either the firm itself, in executing other dimensions of its role, or upon society more broadly, such as its distorting effect upon democratic processes. A fundamental question thus confronts every theory of the firm. What are the conditions under which the purpose and role of the firm, whether narrowly economic or expansively social, may be transgressed? This question calls for systematic normative inquiry and not pitched battles among competing conceptions of the firm.

**Responses to misery: Obligatory, permissible, or prohibited.** For every theory of the firm, a set of criteria can be crafted to determine when the theoretically espoused purpose of the firm can and cannot be violated in order to respond to societal ills. These criteria can delineate when responses are obligatory, permissible, and prohibited, and the criteria can also guide an appropriate means of response. Extensive theoretical work will be necessary to demarcate a zone of permissible corporate action. To construct coherent criteria for licensing corporate responses to human misery, five areas of consideration require further exploration and synthesis. We adumbrate these five areas of consideration, indicating how each would contribute to a normative theory of corporate responsibility.

First, the *origin* of the societal problem will shape the criteria for determining whether firms are obligated to respond, permitted to respond, or prohibited from responding to societal ills. Presumably, a problem created by the firm, or one to which it has contributed sizably, will impose a stronger duty to act than a problem not of the firm's making. Second, the anticipated *effects* of a corporate response will determine the ethical standing of that response. Based on descriptive research, we can establish the likely effects that the content and process of a corporate social initiative will have on the problem, on broader civil society and political processes, and on the firm itself. These consequences will bear upon whether or not a firm's response is permissible or prohibited. In the event that a response is permitted, the anticipated consequences ought also to shape the way in which a response is selected, designed, and implemented.

The *relevance* of the societal ill to the firm constitutes the third area of consideration. The idea of relevance encompasses two dimensions. The first is the relevance of the firm's capabilities and resources to the societal ill being considered. The efficiency and effectiveness of a company's response will depend upon this form of relevance, and efficiency and effectiveness bear upon the justifiability of a response. The second aspect of relevance involves the duty of beneficence (Murphy, 2000; Herman, 2001): the duty to aid others, especially those who are worse off. This duty may vary in strength with a company's proximity to, or extent of membership in, the community where the need for beneficence arises (Herman, 2001). That duty of beneficence may also vary with the benefits the corporation derives from the aggrieved constituency. Chevron Texaco may have limited firm-specific capability to provide what Nigerian communities demand of them, but the integral presence of the company in Escravos, Nigeria and the benefits the company derives from its oil extraction facilities, even if those benefits are the result of explicit legal contracts, may obligate or at least license the firm to do more to redress societal problems there (Moore, 2002). Only systematic normative analysis can determine if such a guiding principle is in fact justifiable. As with the consideration of consequences, relevance may inform the character of the firm's response as well. For example, when relevant capabilities are missing but relevant claims of beneficence are present, a firm may be best off responding through charity (the buy option) or collaboration (the hybrid option) to address the social need.

The *magnitude* and *direction* of the problem are the fourth and fifth areas of consideration. Both draw on the idea of human capabilities advanced by Sen (1985, 1992, 1993) and Nussbaum (1988, 2000). Based on Aristotle's conception of the virtues, economic and anthropological research on developing countries, and political philosophy, Sen and Nussbaum identify ten domains of human capability vital "to truly human functioning that can command a broad cross-cultural consensus" (Nussbaum, 2000: 74). They include such factors as bodily health (having adequate nourishment, medical care, and shelter), control over one's environment (effectively participating in the political choices that govern one's life, holding property, and access to employment), emotions (experiencing the range of emotions essential to human life), and affiliation (having meaningful personal and work relationships of mutual recognition and dignity). The proper corporate response to a societal ill will hinge in part upon the magnitude – the breadth and depth – of

the problem's consequences for these central human capabilities. How many people are affected and how debilitating is the problem? The direction of the problem will also influence the nature of the response required. An impaired capability has greater priority than one lying fallow. Whether impaired or fallow, both may have higher priority for corporate action than a human capability that is not at risk but which a firm has the opportunity to nurture and cultivate.

**A vexing reality.** It is clear that determining the extent of a firm's responsibility to society involves more than resolving a debate about the purposes of the firm. It also requires a careful set of principles that will determine the conditions under which the firm's role – no matter how conceived – may be overridden in light of other considerations. Through systematic normative analysis, criteria can be constructed to delineate when corporate responses to social misery are permitted, sometimes even required, and when they are prohibited.

Managers face a vexing reality. They must find a way to do their work even as seemingly rival financial and societal demands intensify. To make matters worse, each demand can be justified or explained away by a particular conception of the firm. These dueling conceptions have inspired a generation of organizational scholars to posit and demonstrate the economic benefits of corporate responses to social misery. This has left a considerable gap in our descriptive and normative theories about the impact of companies on society. The scholarly agenda we envision accepts this tension as a starting point. The dispute among justifiable but competing demands reflects the reality that firms face in society today. By honoring the dispute and exploring the tension, we offer a different starting point for organization theory and research. In the end, this new scholarship can inform managers and citizens alike as we struggle to meet these daunting challenges.

## CONCLUSION

The practical significance of the research agenda before us is no less weighty than its theoretical implications. Public pressure to satisfy each set of responsibilities, to shareholders and to other stakeholders, continues to mount (Useem, 1996; Paine, 2002). Accountability, however, can distort behavior as much as it can enhance it (Lerner and Tetlock, 1999). Organization theory and research may illuminate how

organizations can move closer to actual fulfillment of those responsibilities, rather than the mere appearance of doing so. But the risks of involving companies in broad societal problems may match the risks of excluding them. Organizations may further insinuate themselves into all aspects of human life (Rosen, 1985; Kunda, 1992; Wilmott, 1993); corporate involvement in addressing targeted problems is no guarantee of improvement. It may well make problems worse, or even create new ones.

What is being asked and expected of corporations today is increasing even as the economic contractarian model of the firm itself has revealed clear practical limitations (Gordon, 2002). The free market may not produce the inexorable march toward worldwide prosperity and well being that is so often anticipated (Stiglitz, 2002). Even as business organizations may be imperfect instruments for advancing a narrowly construed wealth-maximizing objective, they may also be the entities of last resort for achieving social objectives of all stripes. In the face of these challenges, organization theory and research can contribute to the construction, reform, and assessment of the organizations and institutions that play such an essential role in society (Stern and Barley, 1996; Perrow, 2000).

Manifest human misery and undeniable corporate ingenuity should remind us that our central challenge may lie in blending the two. The many organizational scholars who have investigated the relationship between social and financial performance have been eager to develop empirically informed theory that stimulates, if not guides, practice. Paradoxically, by acknowledging the fundamental tension that exists between the roles corporations are asked to play, organizational scholars have the opportunity to inform practice – and thereby help society – where past efforts to remove the tension have fallen short. Before rushing off to find the missing link between social and financial performance, all in hopes of advancing the cause of social performance, we need to understand the conditions under which a corporation's efforts benefit society. This asks us to question corporate social performance and competing conceptions of the firm down to their very roots. Personal values and commitments will no doubt orient the theories we prefer and the research questions we ask. To honor those values and commitments, however, we must acknowledge and question them. Such appraisals ensure the quality of our research and the integrity of our commitments.

Table 1

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**A Snapshot of Social Life In The World's Most Populous Nations, 2000**


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Nation	Population in Millions	% Pop. Living on < \$2/day	% Share of Income/Consumption: Bottom 10% vs. Top 10%	% Children Aged 10-14 in Labor Force	Under-five Mortality per 1000 Live Births	% Rural Pop. with Access to Improved Water Source	% Pop. with Access to Improved Sanitation	Illiteracy Rate Among 15-24 year olds: % Male / % Female	Mainline/Mobile Phones per 1000 People	Personal Computers per 1000 People
China	1,262.5	52.6	2.4 / 30.4	8	39	66	38	1 / 4	112 / 66	15.9
India	1,015.9	86.2	3.5 / 33.5	12	88	86	31	20 / 35	32 / 4	4.5
USA	281.6	---	1.8 / 30.5	0	9	100	100	- / -	700 / 398	585.2
Indonesia	210.4	55.3	4.0 / 26.7	8	51	86	66	2 / 3	31 / 17	9.9
Brazil	170.4	26.5	.7 / 48.0	14	39	54	77	9 / 6	182 / 136	44.1
Russia	145.6	25.1	1.7 / 38.7	0	19	96	---	0 / 0	218 / 22	42.9
Pakistan	138.1	84.7	4.1 / 27.6	15	110	54	61	29 / 58	22 / 2	4.2
Bangladesh	131.1	77.8	3.9 / 28.6	28	83	97	53	39 / 60	4 / 1	1.5
Japan	126.9	---	4.8 / 21.7	0	5	---	---	- / -	586 / 526	315.2
Nigeria	126.9	90.8	1.6 / 40.8	24	153	39	63	10 / 16	4 / 0	6.6
Mexico	98.0	38.4	1.3 / 41.7	5	36	63	73	3 / 3	125 / 142	50.6
Germany	82.2	---	3.3 / 23.7	0	6	---	---	- / -	611 / 586	336.0
Vietnam	78.5	---	3.6 / 29.9	5	34	50	73	3 / 3	32 / 10	8.8

Table 2

## The Relationship between Corporate Social Performance and Corporate Financial Performance: Results and Measures of CSP in 122 Studies

Study	Measure of CSP	Measure of CFP
<b>Corporate Social Performance as Independent Variable</b>		
<i>Positive Relationships</i>		
Anderson & Frankle (1980)	disclosure of social performance	market
Belkaoui (1976)	disclosure of pollution control	market
Blacconiere & Northcut (1997)	disclosure of and expenditures on environmental practices	market
Blacconiere & Patten (1994)	disclosure of and expenditures on environmental practices	market
Bowman (1976)	disclosure of social performance	accounting
Bragdon & Marlin (1972)	CEP evaluation	accounting
Brown (1998)	<i>Fortune</i> reputation rating	market
Christmann (2000)	survey of environmental practices	cost advantage
Clarkson (1988)	ratings of charity, community relations, customer relations, environmental practices, human resource practices, and organizational structures based on case-studies	accounting
Conine & Madden (1986)	<i>Fortune</i> reputation rating	perception of value as long-term investment and of soundness of financial position
D'Antonio, Johnsen, & Hutton (1997)	mutual fund screens	market
Dowell, Hart & Yeung (2000)	IRRC evaluation of environmental performance	accounting and market
Freedman & Stagliano (1991)	disclosure of EPA and OSHA costs	market
Graves & Waddock (2000)	KLD evaluation	accounting and market
Griffin & Mahon (1997)	<i>Fortune</i> reputation rating, KLD evaluation, charitable contributions, pollution control	accounting
Hart & Ahuja (1996)	IRRC evaluation of environmental performance	accounting
Heinze (1976)	NACBS ratings	accounting
Herremans, Akathaporn & McInnes (1993)	<i>Fortune</i> reputation rating	accounting and market
Ingram (1978)	disclosure of social performance	market
Jones & Murrell (2001)	<i>Working Mother</i> list of "Most Family Friendly" companies	market
Judge & Douglas (1998)	survey of environmental practices	accounting and market share
Klassen & McLaughlin (1996)	environmental awards and crises	market
Klassen & Whybark (1999)	survey of environmental practices and TRI	manufacturing cost, quality, speed, and flexibility
Luck & Pilotte (1993)	KLD evaluation	market
McGuire, Sundgren & Schneeweis (1988)	<i>Fortune</i> reputation rating	accounting and market
Moskowitz (1972)	observations of charitable contributions, consumer protection, disclosure, equal employment opportunity, human resource practices, South Africa operations, and urban renewal	personal assessment
Nehrt (1996)	timing and intensity of pollution reducing technologies	accounting
Newgren, Rasher, LaRoe & Szabo (1985)	survey of environmental practices	market
Parke & Eilbert (1975)	survey about minority hiring and training, ecology, contributions to education and art	accounting
Porter & van der Linde (1995)	waste prevention practices	accounting
Posnikoff (1997)	South Africa: divestment	market
Preston (1978)	disclosure of social performance	accounting
Preston & O'Bannon (1997)	<i>Fortune</i> reputation rating	accounting
Preston & Sapienza (1990)	<i>Fortune</i> reputation rating	market
Reimann (1975)	survey of attitudes toward the national government, suppliers, consumers, community, stockholders, creditors, and employees	organizational competence
Russo & Fouts (1997)	FRDC ratings of environmental practices	accounting
Shane & Spicer (1983)	CEP evaluation	market
Sharma & Vredenburg (1998)	survey of environmental strategy	operational improvement
Simerly (1994)	<i>Fortune</i> reputation rating	accounting and market
Simerly (1995)	<i>Fortune</i> reputation rating	accounting
Spencer & Taylor (1987)	<i>Fortune</i> reputation rating	accounting
Spicer (1978)	CEP evaluation	accounting and market
Stevens (1984)	CEP evaluation	market
Sturdivant & Ginter (1977)	Moskowitz ratings of social responsiveness	accounting

Table 2 (cont.)

## The Relationship between Corporate Social Performance and Corporate Financial Performance: Results and Measures of CSP in 122 Studies

Study	Measure of CSP	Measure of CFP
<b>Corporate Social Performance as Independent Variable (cont.)</b>		
<i>Positive Relationships (cont.)</i>		
Tichy, McGill & St. Clair (1997)	<i>Fortune</i> reputation rating	accounting
Travers (1997)	mutual fund screens	market
Verschoor (1998)	espoused commitment to ethics in annual report	accounting and market
Verschoor (1999)	explicit statement of an ethics code in annual report	accounting and market
Waddock & Graves (1997)	KLD evaluation	accounting
Wokutch & Spencer (1987)	<i>Fortune</i> reputation rating, charitable contributions, corporate crime	accounting
Wright, Ferris, Hiller & Kroll (1995)	awards from the U.S. department of labor for exemplary equal employment opportunity	market
<i>Non-Significant Relationships</i>		
Abbott & Monsen (1979)	disclosure of social performance	accounting
Alexander & Buchholz (1978)	Moskowitz ratings of social responsiveness	market
Aupperle, Carroll & Hatfield (1985)	survey of social responsibility practices and organizational structures	accounting
Bowman (1978)	disclosure of social performance	accounting
Chen & Metcalf (1980)	CEP evaluation	accounting and market
Fogler & Nutt (1975)	CEP evaluation	market
Fombrun & Shanley (1990)	<i>Fortune</i> reputation rating	accounting and market
Freedman & Jaggi (1982)	CEP evaluation	accounting
Freedman & Jaggi (1986)	disclosure of pollution	market
Fry & Hock (1976)	disclosure of social performance	accounting
Greening (1995)	EIA reports on conservation practices	accounting and market
Guerard (1997a)	KLD evaluation	market
Hamilton, Jo & Statman (1993)	mutual fund screens	market
Hickman, Teets, & Kohls (1999)	mutual fund screens	market
Hylton (1992)	mutual fund screens	market
Ingram & Frazier (1983)	disclosure of environmental quality control	accounting
Kurtz & DiBartolomeo (1996)	KLD evaluation	market
Lashgari & Gant (1989)	South Africa: adherence to Sullivan principles	accounting
Luther & Matatko (1994)	mutual fund screens	market
McWilliams & Siegel (1997)	awards from the U.S. department of labor for exemplary equal employment opportunity	market
McWilliams & Siegel (2000)	KLD evaluation	accounting
O'Neill, Saunders & McCarthy (1989)	survey of directors' concern for social responsibility	accounting
Patten (1990)	South Africa: announcement of signing of the Sullivan principles	market
Reyes & Grieb (1998)	mutual fund screens	market
Sauer (1997)	mutual fund screens	market
Teoh, Welch & Wazzan (1999)	South Africa: divestment	market
Waddock, Graves & Gorski (2000)	KLD evaluation	accounting and market
<i>Negative Relationships</i>		
Boyle, Higgins & Rhee (1997)	compliance with Defense Industries Initiative	market
Kahn, Lekander, & Limkuhler (1997)	tobacco-free	market
Meznar, Nigh & Kwok (1994)	South Africa: withdrawal	market
Mueller (1991)	mutual fund screens	market
Teper (1992)	no alcohol, tobacco, gambling, defense contracts, or operations in South Africa; adherence to broad social guidelines	market
Vance (1975)	Moskowitz ratings of social responsiveness	market
Wright & Ferris (1997)	South Africa: divestment	market
<i>Mixed Relationships</i>		
Belkaoui & Karpik (1989)	disclosure of social performance and Moskowitz ratings of social responsiveness	accounting and market
Berman, Wicks, Kotha & Jones (1999)	KLD evaluation	accounting
Blackburn, Doran, & Shrader (1994)	CEP evaluation	accounting and market

Table 2 (cont.)

## The Relationship between Corporate Social Performance and Corporate Financial Performance: Results and Measures of CSP in 122 Studies

Study	Measure of CSP	Measure of CFP
<b>Corporate Social Performance as Independent Variable (cont.)</b>		
<i>Mixed Relationships (cont.)</i>		
Bowman & Haire (1975)	disclosure of social performance	accounting
Brown (1997)	<i>Fortune</i> reputation rating	market
Cochran & Wood (1984)	Moskowitz ratings of social responsiveness	accounting and market
Diltz (1995)	CEP evaluation	market
Graves & Waddock (1994)	KLD evaluation	accounting
Gregory, Matatko, & Luther (1997)	mutual fund screens	market
Guerard (1997b)	KLD evaluation	market
Hillman & Keim (2001)	KLD evaluation	market
Holman, New & Singer (1990)	disclosure of social performance and capital expenditures on regulatory compliance	market
Kedia & Kuntz (1981)	interview and survey about charitable contributions, low income housing loans, minority enterprise loans, female corporate officers, and minority employment	accounting and market share
Luther, Matatko, & Corner (1992)	mutual fund screens	market
Mallin, Saadouni, & Briston (1995)	mutual fund screens	market
Marcus & Goodman (1986)	compliance with safety regulations	capabilities and productive efficiency
McGuire, Schneeweis & Branch (1990)	<i>Fortune</i> reputation rating	accounting and market
Ogden & Watson (1999)	customer service complaints	accounting and market
Pava & Krausz (1996)	CEP evaluation	accounting and market
Rockness, Schlachter & Rockness (1986)	EPA and U.S. House of Representatives data on hazardous waste disposal	accounting and market
<b>Corporate Social Performance as Dependent Variable</b>		
<i>Positive Relationships</i>		
Brown & Perry (1994)	<i>Fortune</i> reputation rating	accounting and market
Cottrill (1990)	<i>Fortune</i> reputation rating	market share
Dooley & Lerner (1994)	TRI	accounting
Fry, Keim & Meiners (1982)	charitable contributions	accounting
Galaskiewicz (1997)	charitable contributions	accounting
Levy & Shatto (1980)	charitable contributions	accounting
Maddox & Siegfried (1980)	charitable contributions	accounting
Marcus & Goodman (1986)	compliance with emissions regulations	accounting
McGuire, Sundgren & Schneeweis (1988)	<i>Fortune</i> reputation rating	accounting and market
Mills & Gardner (1984)	disclosure of social performance	accounting and market
Navarro (1988)	charitable contributions	accounting
Preston & O'Bannon (1997)	<i>Fortune</i> reputation rating	accounting
Riahi-Belkaoui (1991)	<i>Fortune</i> reputation rating	accounting and market
Roberts (1992)	CEP evaluation	accounting and market
Waddock & Graves (1997)	KLD evaluation	accounting
<i>Non-Significant Relationships</i>		
Buehler & Shetty (1976)	organizational programs in consumer affairs, environmental affairs, urban affairs	accounting
Cowen, Ferreri & Parker (1987)	disclosure of social performance	accounting
Patten (1991)	disclosure of social performance	accounting
<i>Mixed Relationships</i>		
Johnson & Greening (1999)	KLD evaluation	accounting
Lerner & Fryxell (1988)	CEP evaluation	accounting and market
McGuire, Schneeweis & Branch (1990)	<i>Fortune</i> reputation rating	accounting and market

**Key to Abbreviations:**

CEP: Council on Economic Priorities

EIA: Energy Information Association

EPA: Environmental Protection Agency

FRDC: Franklin Research &amp; Development Corporation

KLD: Kinder, Lydenberg, Domini multidimensional rating

NACBS: National Affiliation of Concerned Business Students

OSHA: Occupational Safety and Health Administration

TRI: Toxics Release Inventory

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