Chapter 2
A Framework for Analysing Economic Impacts of Corporate Social Performance

Before examining the economic impacts of superior corporate social performance, this chapter intends to provide an analysis of both conceptual work on CSR and previous empirical studies that have addressed similar questions in the past. To develop such a frame of reference, it should first be explicated what exactly is meant by the concept of CSR. Therefore, Sect. 2.1 deals with past efforts to define CSR, and with their limitations for the specific purposes of this thesis. Section 2.2 reviews empirical studies on the relationship between corporations' social and financial performance and tries to explain why it so far has failed to come to clear results as to the existence, strength and direction of such a link. Subsequently, Sect. 2.3 draws conclusions from this review and proposes some results concerning a methodology for an empirical analysis of the economic firm-level effects of corporate social performance.

2.1 Concepts of Corporate Social Issues: From CSR to CSP

Though widely used in theory and practice, the term corporate social responsibility (CSR) has been notoriously difficult to define ever since. The broadness of the term, though sometimes at its advantage, has also been seen as its major drawback, as Votaw's often-cited criticism illustrates:

> "The term is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of 'responsible for', in a causal mode; many simply equate it with a charitable contribution."[1]

A proper understanding of CSR is of a certain importance, as it allows for the judgement whether or not a given corporate action can be classified as part of its

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[1] Votaw (1973) p. 11. For a harsh critique of the concept's "analytical looseness and lack of rigor", see Friedman (1970), p. 156.

P. Schreck, *The Business Case for Corporate Social Responsibility*,
Contributions to Management Science.

social performance, which becomes especially relevant when intending to measure its economic impact.

2.1.1 Responsibility as a Multi-Relational Concept

In order to come to a clear understanding of what is meant by CSR, the philosophical discussion on the concept of responsibility can deliver first valuable insights. In philosophy, the exact meaning of the term responsibility has for long been a popular topic of debate.[2] In spite of many controversies, there seems to be agreement concerning two aspects that are of special relevance for the investigation of CSR.

First, slight differences in the exact wording notwithstanding, philosophers agree that the term responsibility can be used with different connotations. It can either merely describe a causal relationship,[3] e.g. when cold temperatures are responsible for slippery streets. It can further mean a positive judgement of a person's praiseworthy character, which is for instance the case when saying that "this women is a responsible person."[4] Finally, it can be used in the sense of personal responsibility.[5] In that understanding, a person (or institution) is held accountable for his or her behaviour or a certain state of affairs. Within the last category, responsibility can be further differentiated into two sub-categories.[6] On the one hand, prospective responsibility concerns a person's responsibilities lying in the future, e.g. when the lifeguard is responsible for the swimmers' lives. Retrospective responsibility, on the other hand, means a person's accountability for actions and/or its consequences. If, for example, a swimmer drowns in presence of a lifeguard, the latter is held responsible for not having saved the swimmer's life.

A second common ground within the philosophical literature on responsibility lies in the fact that it is a multi-relational concept with at least three elements. According to the minimum definition, it contains a subject/carrier (who is responsible?), an object (what for?) and an authority (to whom?) of responsibility.[7] Other definitions include a fourth element by further asking for the normative criteria on grounds of which responsibility is ascribed.[8] Applied to the CSR context, such a

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[2] For an overview concerning the contentious issues, see Lenk and Maring (2004); Oshana (1997); Strawson (1994); Watson (1996); Werner (2002), pp. 524 et sqq.; Zimmerman (2001), pp. 1487 et sqq.

[3] Werner (2002), p. 522; Zimmerman (2001), p. 1486.

[4] See Oshana (1997), p. 71; Werner (2002), p. 522.

[5] See Oshana (1997), p. 71; Werner (2002), pp. 521 et seq.; Zimmerman (2001), p. 1486.

[6] See Werner (2002), pp. 521 et seq.; Zimmerman (2001), p. 1486. One could also perceive of retrospective and prospective versions of a causal and a judgement understanding of responsibility. This differentiation, however, does not appear in the cited literature.

[7] See Zimmerli (1992), p. 102.

[8] For definitions that are based on four and more elements see Höffe (1993), p. 23; Küpper (2006), pp. 181 et sqq.; Lenk and Maring (2004), p. 1558; Ropohl (1994), p. 111 et seq.; Werner (2002), p. 522.

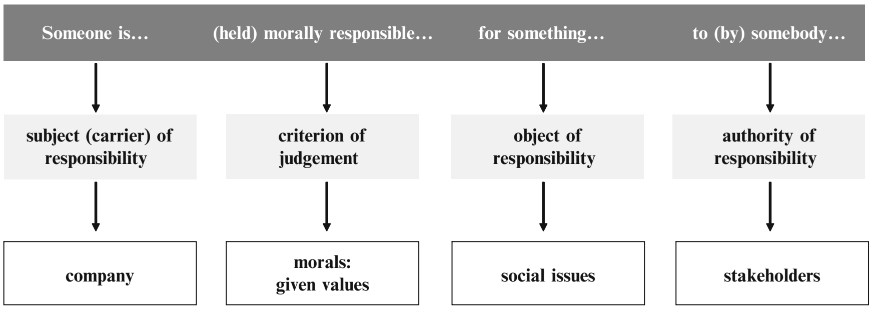

Fig. 2.1 Corporate social responsibility as a multi-relational concept

definition, as shown in Fig. 2.1, translates to the following statement: A *company* (subject/carrier) is held *morally* (normative standard) responsible *for something* (object) *by somebody* (authority).

For the time being, this concept is merely a formal but "empty" scheme as regards content.[9] However, this scheme can serve as a frame of reference for the further analysis of CSR. The first element, the subject of responsibility, does not need specific elaboration here, as it clearly refers to the company.[10] The same applies to the normative standard. Law, social roles, and morals are three important criteria of responsibility.[11] In the case of social responsibility, people judge companies on the ground of morals, understood as the totality of norms and values holding for a given society.[12] Due to the descriptive research aim of this paper, the normative discussion of prevailing norms and values itself is not part of further analysis. Relevant to this study is the fact that companies *are* judged on the ground of morals, regardless of the concrete nature of these norms and values. The remainder of this chapter therefore focuses on the object and the authority of responsibility, before it finally summarises the main insights for further analysis.

2.1.2 The Object of Responsibility: What are Companies Held Responsible for?

2.1.2.1 Responsibility as a Matter of Ascription

Given the assumption that corporations can generally be held responsible, it still has to be answered *for which issues* that happens. In normative discussions about

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[9] Cf. Lenk and Maring (2004), p. 1558.

[10] Concerning the debate whether corporations can be held responsible as collective actors see Donahue (1991); Goodpaster and Matthews (1982); Küpper (2006), p. 185.

[11] Cf. Küpper (2006), p. 186.

[12] Cf. Küpper (2006), p. 13.

responsibility, a causal relation between the subject's action and the object of responsibility is often seen as a necessary condition for the ascription of responsibility:

> "Furthermore, for an unambiguous and unequivocal ascription of responsibility it seems to be necessary that the matter in question *has been caused* by the decision or action."[13]

Though this might hold true in the case of normative discussions on responsibility ("who can legitimately be held responsible?"), descriptive concepts of CSR that demand such a causal relationship fall short of embracing the entirety of observable phenomena with regards to CSR. As can be seen from both the different facets of the philosophical concept of responsibility as well as from the definition of the term as a multi-relational concept, responsibility is an inherent matter of ascription, i.e. persons and institutions do not necessarily bear responsibility *per se*, but they are *held responsible*.[14] As a matter of fact, society *de facto* places social responsibilities on companies even in cases where they undoubtedly did not cause the problems in question (which, of course, does not mean that they could not contribute to the amelioration of these problems). Such ascriptions of responsibilities then do not refer to the company's role in the emergence of problems (causal relation), but in their ability to solve already existing problems. Companies, their "causal innocence" notwithstanding, *do* agree in some cases to contribute to the amelioration of these problems and in that way *do* live up to the ascribed responsibilities. This shows that causal responsibility for a given problem is neither a necessary nor a sufficient condition for the actual ascription of responsibilities. The classification depicted in Fig. 2.2 illustrates the independence of a causal relation and *de facto* ascription of responsibilities.

Regardless of their causal responsibility, in each of the situations located in quadrants *I*, *II*, and *IV*, the company faces the question of how to respond to its (ascribed) responsibilities. However, an empirical analysis of economic consequences of a good performance with regards to CSR only has to take into account cases *I* and *IV*, because *III* does not involve any kind of responsibility, and quadrant *II* refers to situations, where companies are not held responsible for certain issues, although being causally responsible for them. This is for instance the case when social issues, such as the violation of human rights in production facilities or environmental pollution, are not detected by the public. In the context of personal responsibility, this quadrant includes examples where somebody presumably did not deliberately choose the action he had taken; i.e. if he was forced to take the action in question or if he was not in his right mind. Field *I* represents a fit between causality and the ascription of responsibility, which is for instance the case when companies in heavy-polluting industries agree to adhere to environmental standards exceeding those required by

[13] Küpper (2006), p. 190 (italics added, my translation). See also Göbel (2006), p. 101 for the necessity of a causal relation, and Fitch (1976), p. 38, who bases his definition of CSR on such a causal relation.

[14] See also Küpper (2006), pp. 181 and 185; Lenk and Maring (2004), p. 1558; Oshana (1997); Werner (2002), p. 521; Wieland (1999), p. 16; Zimmerman (2001), p. 1486 et seq.

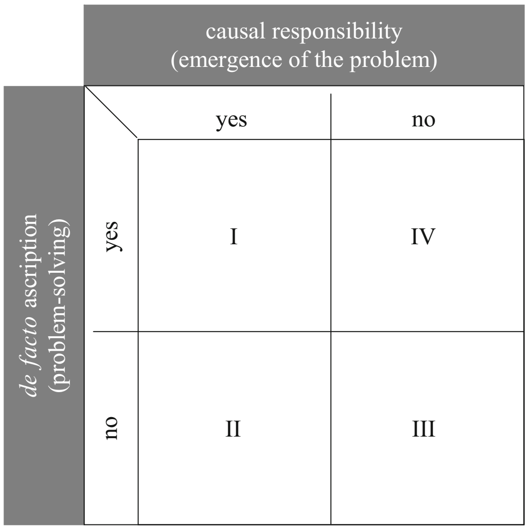

Fig. 2.2 Responsibilities possibly ascribed to companies

law. Quadrant *IV* refers to the aforementioned cases where companies are pushed to help change certain conditions in spite of the absence of a causal relation between the subject (the company) and the object (conditions). Examples for such demands include the corporations' efforts to fight against Apartheid in South Africa until the early 1990s,[15] their contribution to the achievement of the UN Millennium Development Goals, or engagement for an ethical development of regulatory frameworks.[16] The reason for the rise of such demands mainly can be seen in the failure of those public institutions that were hitherto in charge of such problems. As (especially multinational) companies are then perceived to be the most powerful private actors, they are seen as a promising way to fight diseases, run educational programs or even grant civil rights and stabilise democratic institutions.[17] It can therefore be assumed that it is the company's ability to solve problems rather than its causal responsibility for them that sometimes leads to the ascription of responsibilities.[18] All of these corporate activities then represent reactions to (ascribed) social responsibilities which are perceived by stakeholders inside and outside the organisation. Therefore, they should have an impact on the company's financial performance, which in turn can be analysed empirically.

[15] KLD, a CSR rating agency, even used "South African Involvement" as one criterion for the assessment of a company's social performance, see Sharfman (1996), pp. 288 et sqq.

[16] See Scherer et al. (2006); Hansen and Schrader (2005), p. 376.

[17] See Davis (1960); Matten and Crane (2005), pp. 169 et sqq.

[18] See Friedman (1970), p. 158 and Küpper (2006), pp. 184 and 189.

2.1.2.2 What is *Social* About CSR? On the Search for the Defining Criterion

If it is clear that so-called social responsibilities are ascribed to business, the question remains what it exactly is that makes a responsibility a social one. At the core of most, if not all, definitions of CSR lies the idea that actions and decisions by a company do not only concern its own interests but also those of society as a whole, or in economic terms: companies should internalise negative external effects. Howard Bowen, who is – in spite of early writings on corporations' social responsibilities in the 1920s[19] – widely recognised as the first influential scholar addressing CSR, states that it

> "...refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."[20]

Those societal "objectives and values" can mean, for instance, that companies are expected to ensure certain environmental standards reaching beyond those defined by law, to ensure occupational health and safety standards in the absence of formal regulation (especially in outsourced production sites in developing countries), to engage in the local community (by sponsoring charity projects or investing in education)[21] and to avoid unethical business practices such as bribing.

Still, the reference to societal values leaves the question unanswered what precisely constitutes the very nature of corporations' *social* responsibilities and their efforts to live up to it. How can a certain corporate action or decision be attributed to the company's social responsibility? No consent has been reached as to this question, and in the light of failed efforts to define CSR, some even conclude that it "...has become difficult, if not impossible, to define what is, or what is not, a social issue."[22] Many answers to this question exist in efforts to define the concept of CSR, which – in spite of many intersections – can conceptually be differentiated by looking at the criterion upon which they base their definition.

Some definitions require that CSR reaches beyond the legal and economic obligations of a company and therefore imply that voluntarism is a characteristic feature of CSR.[23] Focusing on legal aspects, this means that

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[19] See Carroll (1999), p. 269; Windsor (2001), p. 229; Wood and Jones (1995), p. 233.

[20] Bowen (1953), p. 6. For other definitions of CSR that focus on the public interest, see Davis (1973), pp. 312 et seq.; Eells and Walton (1974), p. 247; Frederick (1960), p. 60; Frederick (1994), p. 150; Hansen and Schrader (2005), pp. 376 et seq.; Jones (1980), pp. 59 et seq.; Lerner and Fryxell (1988), p. 952; McGuire (1963), p. 144; McWilliams and Siegel (2001), p. 117; Steinmann (1973), pp. 467 et seq.; Zenisek (1979), p. 366.

[21] The latter examples are often called "social" responsibilities, i.e. concerning human society as opposed to the natural environmental. Compared to the comprehensive meaning of CSR, this represents a restricted understanding of the word "social". In order to avoid confusion between those two understandings, this paper uses the word in the comprehensive sense only.

[22] Clarkson (1995), p. 102.

[23] For such definitions see Davis and Blomstrom (1966), p. 12; Eells and Walton (1974), p. 247; European Commission (2006), p. 2; Jones (1980), p. 60; McGuire (1963), p. 144; McWilliams and Siegel (2001), p. 117; Sethi (1975), pp. 62 and 70; Walton (1967), p. 18.

> "...social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do."[24]

Although beyond compliance firm behaviour might be a good indicator for socially responsible behaviour, it is critical to assume that CSR starts only where the law ends. Breaching the law is often a topic of CSR debates, as the examples of reporting scandals[25] or corruption[26] show. Hence, the law hardly allows for a sharp distinction between social and other responsibilities. With regards to economic aspects, the problem with voluntarism is that it is difficult to assess whether decisions in organisations indeed include the consideration of obligations beyond economic interests. To answer this question, CSR definitions have pointed at either decision-makers' motives or the effects of corporate action.

As one possibility to judge why actions are taken, early scholars tried to define CSR by asking for the "real" motives and intentions underlying decisions in business. The decision-maker's consideration of public interests is then seen as a necessary and sufficient condition for classifying a *social* decision. Actions labelled "social" but taken as a means to economic ends, then cannot belong to CSR, as in "its purest form, social responsibility is supported for its own sake because that is the noble way for corporations to behave."[27] One definition focusing directly on the managers' interests comes from Johnson (1971) who states that a "socially responsible entrepreneur or manager is (...) *interested* not only in his own well-being but also in that of the other members of the enterprise and that of his fellow citizens."[28] And Davis and Blomstrom (1971) see the "true test of social responsibility [in] whether issues of public interest are *considered at the time a decision is made*. If so, social responsibility is involved."[29] A closer analysis, however, shows that motives can hardly serve as an adequate defining criterion for CSR, as intentions are not directly observable and are therefore extremely difficult to assess.[30] Furthermore, corporate decisions "may have multiple rather than single motives and, therefore, this is not a fruitful criterion for judging social responsibility."[31] One could instead rely upon corporate communication as a proxy for the actual intentions, but it may

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[24] Davis (1973), p. 312. For other definitions of CSR as going beyond legal requirements, see Jones (1980), pp. 59 et seq.; McWilliams and Siegel (2001), p. 117; Vogel (2005), p. 2.

[25] Cf. Tonge et al. (2003) on the Enron Case.

[26] Cf. Rodriguez et al. (2006). For articles taking legal compliance as a proxy for socially responsible behaviour, see Wood and Jones (1995), p. 255.

[27] Mintzberg (1983), p. 3.

[28] Johnson (1971), p. 68 (italics added).

[29] Davis and Blomstrom (1971), p. 87 (italics added). For other definitions based on motives and interests, see Backman (1975), p. 2; Davis (1960), p. 70; Davis (1973), p. 312 et seq.; Walton (1967), p. 18.

[30] Concerning the difficulties to find out the "real" motives of CSR, see also Carroll (1999), p. 276 and Manne and Wallich (1972), p. 8.

[31] Carroll (1999), p. 276. For similar criticism see Bowman (1973), p. 42; Picot (1977), p. 24; Windsor (2001), p. 226.

be doubted that this is a reliable procedure. Firm representatives will always tend to emphasize the societal benefits of corporate social programs rather than their economically benign effects for the company itself. Some go even so far as to say that such claims hint at exactly the opposite motives: "[M]anagers must *say* that they are responsible, because they are *not*."[32]

Instead of asking for motives and interests being considered at the time a decision is taken, one can also analyse the effects[33] of certain corporate actions in order to evaluate whether they reach beyond economic obligations. The problem with defining CSR this way is that it neglects multiple effects of an action. If, for instance, high environmental standards lead to a good reputation which in turn raises the brand value, it is hard to assess due to which effect the high standards were installed. Certain authors therefore even require that "true" CSR comes along with economic losses:

> "To qualify as socially responsible corporate action, a business expenditure or activity must be one for which the *marginal returns to the corporation are less than the returns available from some alternative expenditure*, must be purely voluntary, and must be an actual corporate expenditure rather than a conduit for individual largesse."[34]

However, financial harm as the defining criterion bears some problems for both conceptual as well as empirical reasons. In economics, the independence of motives (private gain) and outcomes (public wealth) has a long tradition. Adam Smith emphasised that the praiseworthy effects of competitive markets can be expected *independently of whether the economic agents have them in mind*.[35] It is the prospects of private gain that drives their economic behaviour rather than their consideration of social needs. In this context, Karl Homann and Ingo Pies point at the beneficial, though not-intended consequences of self-centred actions.[36] Definitions of CSR that rely on material losses ignore and even exclude this convergence of private and public gain. Furthermore, especially relevant to the aim of this paper, empirical criticism can be brought forward against such definitions. In case of the measurement of economic impacts of CSR practices, demanding for financial harm would imply the expectation of a negative link between CSR and financial measures *ex definitione*. Such a definition would therefore render empirical tests of the business case hypothesis impossible, as the latter assumes that CSR efforts can have positive impacts on financial measures.

As the analysis above has shown, neither legal/economic voluntarism nor motives nor effects serve as adequate criteria, as long as they are dependent on the identification of the 'real' motives or the 'either economic or social' outcomes. CSR

[32] Cheit (1964), p. 172 (italics in original).

[33] See, e.g. Davis and Blomstrom (1966), p. 12.

[34] Manne and Wallich (1972), p. 4–6 (italics added). For another definition focusing on the costs of CSR see Browne and Haas (1974), p. 48.

[35] Cf. the famous passage from Smith (1991), p. 20, in which the role of economic agents' self interest in markets is discussed.

[36] Cf. Homann and Pies (1994), p. 8.

definitions that rely on such criteria of distinction are deemed to fail because they ignore multiple motives and effects of corporate actions: "Economic" actions can have ethically benign outcomes, and "ethically motivated" decisions can have financially sound effects. A clear separation of social from economically rational decisions is therefore not possible.[37]

2.1.2.3 Analytical Frameworks as Definitions of CSR

Partly as a response to the inherent difficulties of the concept of CSR, efforts shifted to defining CSR by offering frameworks that help analyse CSR practices. Along with this development the point of interest moved to the scrutiny of how companies react to these ascribed responsibilities and thereby focused on processes and outcomes. This reaction was then labelled *Corporate Social Performance* (CSP).

Carroll (1979) first presented his CSP model that includes the three dimensions *Social Responsibility Categories* (which were meant to define CSR), *Social Issues Involved* (an enumeration of issues such as the natural environment or product safety), and *Philosophy of Social Responsiveness* (asking how the company reacts to ascribed responsibilities).[38] Interestingly, by encompassing the "economic, legal, ethical, and discretionary[39] expectations that society has of organizations at a given point in time",[40] this approach tries to separate economic from legal and ethical responsibilities and therefore cannot avoid any of the definitional problems discussed above. Furthermore, it comes along with an additional problem when it ought to be measured against indicators of financial performance. If CSR comprises economic responsibilities per definition, then a comparison between a company's social and its financial performance at least partly would mean measuring variables against themselves.[41]

Nevertheless, Carroll's model served as the blueprint for several subsequent definitions and analytical frameworks of CSP. At the base of each of these concepts lies the distinction between three different dimensions, mainly oriented at Carroll's model (see Fig. 2.3). Wartick and Cochran (1985) with their widely cited definition talk of *principles*, *policies* and *processes*. Wood (1991a), sees CSP as

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[37] For definitions of CSR stating that turning social problems into private profits *is* the corporation's *social* responsibility, see Drucker (1984), p. 62; Friedman (1970); Friedman (1962), p.133; Johnson (1971), p. 54.

[38] See Carroll (1979), p. 503.

[39] The fourth category was later called "philanthropic", see Carroll (1991b), p. 42, and finally merged with the ethical category into a three domains-approach, see Schwartz and Carroll (2003). These changes, however, did not reflect any substantial conceptual differences.

[40] Carroll (1979), p. 500 (footnote added).

[41] Consequently, in the first attempt to apply Carroll's CSP model for the measurement of the link between CSR and firm profitability, Aupperle et al. (1985) excluded the economic dimension from their operationalisation of CSR, which is a contradiction to their own definition.

Carroll (1979): CSP	**Definition**	**Social Issues**	**Philosophy of Responsiveness**
	- economic responsibilities *- legal responsibilities* *- ethical responsibilities* *- discretionary responsibilities*	*- Consumerism* *- Environment* *- Discrimination* *- Product Safety* *- Occupational Safety* *- Shareholders*	*- Reaction* *- Defense* *- Accommodation* *- Proaction*
Wartick/Cochran (1985): CSP	**Principles**	**Policies (Social Issues Management)**	**Processes (Responsiveness)**
	- economic *- legal* *- ethical* *- discretionary*	*- Issues Identification* *- Issues Analysis* *- Response Development*	*- reactive* *- defensive* *- accomodative* *- proactive*
Wood (1991): CSP	**Principles of CSR Within CSR Domains**	**Outcomes of Corporate Behavior**	**Processes of Corporate Social Responsiveness**
	(matrix below)	*- Social Impacts* *- Social Programs* *- Social Policies*	*- Environmental Assessment* *- Stakeholder Management* *- Issues Management*

	institutional	*organizational*	*individual*
econ.			
legal			
ethical			
discr.			

Fig. 2.3 Definitions of corporate social performance (CSP)

> "...a business organization's configuration of *principles* of social responsibility, *processes* of social responsiveness, and policies, programs, and observable *outcomes* as they relate to the firm's societal relationships."[42]

These frameworks allow for a more facetted understanding of CSP, which is able to organise various related aspects for instance by looking at which stakeholder is involved, how the company reacts (policies & processes), or at which level (individual, organisational, institutional) this takes place. But the question what a "social" issue is, still remains. Therefore, the CSP frameworks might provide valuable insights for the conceptual analysis of corporate social action, and reorient further analysis by framing and integrating[43] existing research in the field of business and society. But their first dimension – be it called "definition" or "principles" – still implicitly needs a judgement of what a social issue is. As the concepts in this context all draw on Carroll's four categories, the criticism brought forward above equally applies to the later models of CSP. In this respect, they offer little guidance as to the quantitative measurement of CSP.

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[42] Wood (1991a), p. 693 (italics added); see also Swanson (1995), p. 43, who uses exactly the same terminology. For a slightly different approach see Epstein (1987), p. 104, who sees business ethics, corporate social responsibility and corporate social responsiveness as three elements of a "corporate social policy process".

[43] For a framework attempting to integrate descriptive and normative work on CSP, see Swanson (1999).

2.1.3 The Authority of Responsibility: By whom are Corporations Held Responsible?

Closely related to asking *for what* corporations are responsible, is the question concerning the authority of responsibility: *To whom* are corporations responsible? Put differently and applied to the descriptive aim of this paper: *By whom* are responsibilities ascribed to corporations? The Stakeholder Approach, first so labelled by Edward R. Freeman,[44] is still a widely discussed concept which offers a helpful heuristic to categorise, sort and analyse multiple interests concerned by an organisation.[45] As mentioned above, it was therefore used in the Wood (1991a) model to specify "processes of corporate social responsiveness" which include, amongst others, stakeholder management.[46]

By definition, a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives."[47] This definition shows that companies face various different stakeholders' interests that are occasionally at conflict with each other or with the company's (i.e. the shareholders') own interests. Therefore, one can describe CSR as the challenge of "managing a multiplicity of interests."[48] When companies are asked to, or they themselves claim to act in a socially responsible way, this always hints at the existence of conflicting interests of different stakeholders. By clarifying whose interests are possibly at conflict, the stakeholder concept helps to put the concept of CSR into concrete terms.

Examples of stakeholders include employees, customers, shareholders, suppliers & subcontractors, the community in which the company operates, governments and non-governmental organisations (NGOs), often representing other stakeholders' interests that cannot be brought forward by themselves. This is for instance the case with the natural environment, animals or future generations. As these examples make clear, the stakeholders that are affected by the company and those that ascribe responsibilities to it, do not necessarily have to be identical.

Within the literature on the stakeholder approach, three different and distinct strands can be identified:[49]

- *Normative* concepts: To which stakeholders' interests *should* companies pay attention?
- *Descriptive* concepts: To which stakeholders' interests and in which way *do* managers pay attention?

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44 Cf. Freeman (1984).

45 For recent discussions and developments, see Donaldson and Preston (1995); Freeman (1999); Freeman (2004); Jensen (2002); Jones et al. (2002); Mitchell et al. (1997); Phillips et al. (2003); Ulrich (1999).

46 For an adoption of the Wood-model from a stakeholder theory perspective see Clarkson (1991) and Clarkson (1995).

47 Freeman (1984), p. 46.

48 Johnson (1971), p. 51.

49 See Donaldson and Preston (1995), pp. 66 et seq.

- *Instrumental* concepts: *What happens*, if companies pay attention to certain stakeholders' interests in certain ways?

For the purpose of this paper, descriptive and instrumental aspects of the stakeholder concept are most relevant. As mentioned before, in contrast to a philosophical normative analysis, the question here is not which responsibilities companies *should* theoretically bear, but which ones are *de facto* ascribed to corporations and what impact their consideration has. Therefore, the normative question of whether or not stakeholder claims are deemed legitimate in an objective sense is not the point of interest here.[50] That makes it understandable why (instrumental) stakeholder approaches are so widely used in empirical research on CSP.[51]

2.1.4 Results for Further Analysis

As the analysis above has shown, efforts to define CSR come along with certain insurmountable difficulties. None of the commonly used criteria – neither the scope of law, motives underlying corporate decisions, nor the effects of their actions – can serve as an unequivocal basis for a precise definition of CSR. The subsequently developed CSP models offer useful frames of reference, but are not able to overcome the definitional problems of earlier concepts. In the light of these sobering results, conceptual attempts should be formulated moderately. Instead of asking for a universal definition of CSR, a workable concept should be proposed according to the respective research aim. Applied to the investigation of the CSP/CFP link, such a concept would have to include the following insights:

1. As visualised in Fig. 2.1, CSR is a multi-relational concept, which – if empirical effects of CSP are at interest – is therefore inherently a matter of ascription.
2. Such ascriptions of social responsibilities take place on the basis of moral standards as normative criteria of judgement. Based on such criteria, stakeholders internal and external to the organisation perceive value conflicts and sometimes hold the company responsible for their solution, independently of whether or not a causal relation exists between the company and the problem at hand.
3. The analysis of the literature has revealed no unanimous and unambiguous answer considering the exact scope of CSR. With regards to the purpose of this paper, it is therefore advisable to address the question of whether or not a given corporate action builds part of CSR empirically rather than conceptually. An understanding of CSR can be gained by looking at what kind of value conflicts lead to moral claims being directed at companies, and at their reactions.

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[50] Concerning aspects of stakeholder legitimacy, see Donaldson and Preston (1995), pp. 73 et sqq.; Mitchell et al. (1997), pp. 872 et sqq.; Ulrich (1999), pp. 37–44.

[51] For empirical studies using stakeholder theory as a frame of reference, see Mitchell et al. (1997); Rowley (1997); Berman et al. (1999); Hillman and Keim (2001); Graves and Waddock (2000); Harrisson and Freeman (1999); Ogden and Watson (1999); Ruf et al. (2001); Wood and Jones (1995).

4. Even though it is hardly possible to define its exact scope, CSR is a multidimensional concept due to its involvement of various stakeholders' interests.
5. Descriptive and instrumental aspects of the Stakeholder Approach help sorting the issues at question as it allows for an analysis of who ascribes social responsibilities, and who is affected if the company reacts.[52]
6. Consequently, so-called social issues can vary over time due to changes in culture, problems, and legal regulation. Hence, empirical analyses are *status quo* descriptions, which implies temporal limits to their validity.

Based on the conceptual literature on CSR and in an attempt to identify what is meant by corporate social performance, the analysis to this point has proposed a number of preliminary results. As the research aim of this thesis is the inquiry of the empirical relation between corporations' social and their financial performance, the following chapter reviews already existing studies on this relationship and forms the basis for a critical examination in Sect. 2.3.

2.2 Measuring Economic Impacts: Empirical Studies on the CSP/CFP-Link

2.2.1 Corporate Social Performance: Remarks on Related Terms

Not all of the studies described in the following use the same wording, though they refer to similar underlying concepts. Therefore, some clearing remarks as to various concepts frequently brought forward in the *Business and Society* literature are appropriate at this point in order to avoid confusion. *Corporate Social Responsibility* (CSR) concerns the question discussed above, what kinds of social responsibilities can be and actually are ascribed to corporations. This term then falls into the earlier described category of personal responsibility.[53] The *Stakeholder Approach*, as mentioned, clarifies the concept of CSR by categorising and sorting the allocations of social responsibilities.[54] *Corporate Social Performance* (CSP), as does *Corporate Social Responsiveness*,[55] refers to the company's response to the assigned responsibilities. It concerns the extent to which – judged from an external point of view – the firm meets the expectations related to these responsibilities. Understood this way, the term corresponds to the understanding of the term "responsible" as a

[52] From this perspective, improved CSP can either mean that the accepted responsibilities are extended by new constituencies (i.e. hitherto not considered stakeholders such as the natural environment, animals, or the community) or that the responsibility towards certain stakeholders is widened by certain aspects (e.g. in the case of employees: job security, co-determination, etc.).

[53] Cf. Fig. 2.1 on p. 7.

[54] See Velamuri and Freeman (2006) for an effort to merge CSR and Stakeholder Theory into the concept of "Corporate Stakeholder Responsibility".

[55] Cf. Ackerman and Bauer (1976); Frederick (1994), p. 154 et sqq.; Frederick (1998); Lerner and Fryxell (1988), p. 952.

judgement of a character.[56] A number of other concepts, though frequently used in academia as well as in practice, do not offer any explanations that go substantially beyond those of the above mentioned concepts. The notion that companies ought to subscribe to the ideas *Sustainable Development*,[57] *Corporate Citizenship*,[58] *Social Issues Management*[59] or a *Triple Bottom Line*[60] basically all refer to the extension of corporate responsibilities by societal values and therefore only include issues already subsumed to the concept of CSR.

2.2.2 The Empirical Investigation of the CSP/CFP-Link as an Important Topic in Management Research

For more than 30 years, the existence, direction, and strength of a possible link between corporate social performance (CSP) and corporate financial performance (CFP) have been subject to various empirical analyses. The significant amount of these studies can not least be explained by the CSR advocates' aspiration to prove that a positive social performance is not only good for ethical reasons, but that it also provides economic benefits. Management should therefore consider CSR in their decisions:

> "The development of this literature from the early days of Preston and Post (1975) up through the recent work on cause-related marketing and strategic philanthropy can be characterized by the simple idea that CSR/CSP would be supported by managers and their decision making process if only it could be shown that companies can 'do good and do well,' or even better that they can 'do well by doing good'."[61]

Efforts to support such an assumption empirically require adequate measures by means of which it is possible to quantify the underlying constructs of CSP and CFP without violating criteria of objectivity, reliability and validity. While the measures for firm financial performance have not been a reason for major dissent,[62] no consent has been achieved as to the most appropriate way to evaluate CSP. The empirical literature offers a broad range of attempts to measure firm social performance.

Therefore, an adequate way of categorising prior research on the CSP/CFP-link is to ask how the studies operationalise the construct of CSP, respectively. As regards content, some studies only consider one component of CSR, for instance by exclusively using environmental data. Others include multiple components in their proxy for CSP by measuring issues such as the environmental performance,

[56] Again, cf. Fig. 2.1 on p. 7.

[57] See Hülsmann et al. (2004); Utting (2000).

[58] For an overview, see Habisch (2003); Matten and Crane (2005).

[59] Wartick and Rude (1986); Wood (1991b); Wood and Jones (1995), p. 230.

[60] See, e.g. Norman and MacDonald (2004).

[61] Wood and Jones (1995), pp. 234–235.

[62] For an overview of the most commonly used financial performance measures, see Orlitzky et al. (2003), pp. 407 et seq.; Sen and Bhattacharya (2001), p. 226[2].

Number of Dimensions	Source of Information: Perception-based	Source of Information: Performance-based	Source of Information: Content-Analysis
single	personal assessment; interviews	environmental *or* social *or* philanthropic	corporate publications; media coverage
multiple	internal/ external expert interviews	environmental *and* social *and* philanthropic	
multiple	multi-dimensional ratings; aggregated indices; meta-analyses		

Fig. 2.4 A classification of CSP-measures

employee treatment, and charitable contributions. The empirical literature can thus be classified by looking at whether they use one- or multi-dimensional constructs as CSP-measures. With respect to the source of information, there are three categories of proxies for CSR. Especially earlier studies used perception-based measures, e.g. by asking internal or external experts to asses a given company's social performance. A second category relies on performance-based information, such as data on air pollution discharge or charitable expenditures. The last type of studies uses content-analyses of corporate and other publications to measure a firm's CSP. Figure 2.4 categorises different CSP-measures, according to which the following discussion of empirical studies is structured. This discussion does not aim at exhaustively analysing *all* studies but rather intends to offer a systematic and critical classification of approaches to measure the CSP/CFP-link.

2.2.3 Empirical Studies on the CSP/CFP-Link: Different Measures of CSP

2.2.3.1 Perception-Based Measures

The study from Moskowitz (1972) is commonly cited as the earliest attempt to empirically investigate the relationship between a company's efforts to adhere to its social responsibilities and its financial performance. By generally speaking of "socially responsible" corporate behaviour, and thereby considering CSP one-dimensionally, this study assumes that a socially responsible portfolio also economically performs superior. However, when choosing socially responsible corporations, the author relies on his subjective perception rather than on objective criteria:

> "It is extremely difficult to construct standards by which a company's social performance can be accurately measured (. . .). After four years of closely monitoring businesses' social involvement, however, I have observed a number of company names cropping up time after time with regard to positive and constructive responses to social problems."[63]

From today's perspective, this procedure surely does not satisfy scientific standards. Nevertheless, subsequent empirical studies repeatedly used Moskowitz's list but did not come to unequivocal results.[64]

A number of other authors have measured CSP multi-dimensionally by referring to the *Fortune Reputation Index*. The *Fortune Magazine* annually interviews managers and stock analysts as external experts within one industry respectively, and asks them to evaluate companies relatively to the strongest competitor and with respect to eight different criteria.[65] As one of them is *Responsibility to the Community/Environment*, this survey includes both societal as well as environmental issues. Analyses of the CSP/CFP-link have repeatedly used the referenced part of the *Fortune Reputation Index*, although this has led to mixed results.[66] Preston and O'Bannon (1997) use *Fortune* data as well, but in addition to *Community and Environmental Responsibility*, they include the two dimensions *Ability to Select and Retain Good People* and *Quality of Products and Services*. Their analysis claims a positive relation between these criteria (as a proxy for CSP) and financial success.[67] Choosing the internal perspective, Aupperle et al. (1985) follow Carroll's (1979) definition of CSR and use a forced-choice instrument to assess the attitude of firm representatives towards CSR.[68] In this case, CSP is understood as a multi-dimensional construct that includes economic, legal, ethical, and discretionary responsibilities.[69] The authors then measure the three latter dimensions' relation to the return on assets (ROA) as a proxy for CFP, but eventually fail to prove a significant correlation.[70]

The use of perception-based measures as CSP proxies has been subjected to serious criticism concerning a lack of objectivity[71] or methodological difficulties such

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[63] Moskowitz (1972), pp. 71–72.

[64] Vance (1975) claims a negative link, Alexander and Buchholz (1978), p. 485, discover no significant results, and Cochran and Wood (1984), pp. 54 et sqq. – depending on the sample in use – find positive *and* negative relations.

[65] Cf. Wokutch and Spencer (1987), p. 66, or Fombrum and Shanley (1990), pp. 242 et seq.

[66] Spencer and Taylor (1987), p. 14, Stanwick and Stanwick (1998), p. 198 and Wokutch and Spencer (1987), pp. 70 et sqq. find a positive relation, whereas McGuire et al. (1988), pp. 865 et sqq. come to positive, non-significant, and negative results, depending on the time horizon and the measure for financial performance. For a study with similar data, cf. Luo and Bhattacharya (2006).

[67] Cf. Preston and O'Bannon (1997), pp. 426 et sqq.

[68] With this method, the respondents receive a questionnaire containing several statements, to which they have to allocate a limited amount of points depending on their level of agreement. This way, they are forced to hierarchically sort the statements according to their preferences.

[69] Cf. the discussion of Carroll's model on p. 14.

[70] Cf. Aupperle et al. (1985), p. 461.

[71] Cf. Carroll (1991a), p. 392; Cochran and Wood (1984), p. 43; Ullman (1985), p. 546; Wokutch and McKinney (1991), p. 311; Wood and Jones (1995), pp. 238 et seq.

as halo-effects[72] and multicollinearity.[73] In order to avoid this kind of criticism, some empirical studies have instead used clearly quantifiable and arguably more objective indicators such as performance-based measures of CSP.

2.2.3.2 Performance-Based Measures

Studies using purely environmental indicators form an example of one-dimensional conceptions of CSP. In this context, a common way of judging a company's CSP is the use of data provided by the *Council on Economic Priorities* (CEP).[74] The CEP used to publish rankings on the environmental pollution discharge of multinational corporations within different industries.[75] These rankings can build the basis for indices which can then serve as a measure of CSP. Using this approach, some studies find a positive relation between this measure and indicators of profitability,[76] whereas others only come to non-significant[77] or ambiguous[78] results. Also falling into the category of one-dimensional measures are those efforts that measure CSP by looking at corporate charitable donations. Not surprisingly, these studies result in the claim of a positive CSP/CFP-Link,[79] which is plausible since financially well-operating companies are especially able to afford such expenditures.

Finally, there exist approaches that combine multiple dimensions for performance-based measures of CSP. Lerner and Fryxell (1988) for instance do not restrict their analysis to CEP data but additionally include charitable expenditures and the shares of both women and minorities on the board of directors and in top management positions. Their results vary, depending on the component of CSP considered. In a similar way, Diltz (1995, with ambiguous results) and Roberts (1992, who claims a positive link) use the multi-dimensional CEP ratings developed later in time.[80]

[72] Cf. Brown and Perry (1994).

[73] Cf. Wood (1995), p. 198.

[74] Examples of studies that also exclusively consider the environmental dimension – although with different data than those from the CEP – are Christmann (2000); Hart and Ahuja (1996); Klassen and McLaughlin (1996); Klassen and Whybark (1999); Konar and Cohen (2001). All of these studies discover a positive relation of their environmental indicators with financial measures.

[75] Cf. Spicer (1978a), pp. 101 et seq. Later, the CEP also published comprehensive, multi-dimensional rankings, cf. Diltz (1995), p. 71.

[76] Cf. Bragdon and Marlin (1972); Shane and Spicer (1983); Spicer (1978a).

[77] Cf. Chen and Metcalf (1980) or Freedman and Jaggi (1982).

[78] Cf. Pava and Krausz (1996).

[79] Cf. Fry et al. (1982); Galaskiewicz (1997); Levy and Shatto (1980); Maddox and Siegfried (1980).

[80] Cf. footnote 86.

2.2.3.3 Content Analyses

Besides perception-based and performance-based measures, content analyses of corporate and other publications build a third way of operationalising the construct of CSP. Most important in this context are companies' annual reports, but studies using this technique of analysis also consider employee manuals, corporate magazines, speeches of managers, SEC 10-Ks or media reports. Within this category, different one-dimensional approaches can be identified.

One of the earliest of such studies, exclusively considering the social dimension, can be found at Bowman and Haire (1975), who conduct a purely quantitative analysis but totally abstain from differentiating with regards to content:

> "In searching for a readily available surrogate measure for actual activities in the area of corporate citizenship, we chose to measure the proportion of lines of prose in the annual report devoted to social responsibility".[81]

Since this rather pragmatic approach, the technique of content analysis has become refined,[82] but nevertheless has not been widely used anymore in recent empirical studies.[83] Besides social issues, certain studies have only considered the environmental information in corporate publications. However, most of these studies only produced insignificant results.[84]

Interestingly, no multi-dimensional content analyses have been used for investigations into the CSP/CFP-link, despite the existence of surveys and even ratings based on CSR reports.[85] This is partly due to the rise of alternative, more comprehensive and reliable measures of CSP which are generated by professional raters.

2.2.3.4 Comprehensive Multidimensional Measures and Aggregated Indices

Especially in recent studies, the use of data provided by professional rating agencies such as *Kinder, Lydenberg, Domini & Co.* (KLD) forms a widely-used way of measuring a firm's social performance.[86] KLD developed a rating system for

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[81] Bowman and Haire (1975), pp. 49 et seq. This study does not come to unambiguous results as to the CSP and CFP-link.

[82] Cf. Wolfe (1991), pp. 291 et sqq.

[83] For studies using content analyses – though discovering different results as to the CSP/CFP-link – see Abbott and Monsen (1979); Anderson and Frankle (1980); Fry and Hock (1976); and Preston (1978).

[84] Cf. Freedman and Jaggi (1986) and Ingram and Frazier (1983). Blacconiere and Patten (1994), pp. 374 et sqq., however, who additionally consider investments into "green" technology, claim a significant and positive link.

[85] Cf. KPMG Global Sustainability Services (2005) or Kirchhoff (2007).

[86] Waddock (2003), p. 369, calls the use of KLD-data the *"de facto* research standard at the moment". For a critique of this approach see Entine (2003) and Jarvis et al. (2003). For a deeper discussion of KLD's methodology, see Sect. 3.1.1.2. Concerning the use of different but similar multi-dimensional ratings drawing (amongst others) on CEP data, see Diltz (1995); Roberts (1992). For a comprehensive discussion of various rating agencies and their screening methodologies, see Schäfer et al. (2006).

the assessment of CSP. The rating's results are used to decide upon exclusion and inclusion of corporations in sustainability indices such as the *Domini Social Index* 400, or sold to Socially Responsible Investment (SRI) fund managers. KLD assesses companies along the various components such as *Community Relations, Employee Relations, Environment, Women and Minority Issues, Product Liability, Tobacco/Gambling/Alcohol, Military Contracting/Nuclear Power* and *South African Involvement*.[87] Within this group of empirical studies, one can further distinguish two kinds of investigations. Some test the statistical influence of single component on financial measures. Others use all components to build an aggregated index and then scrutinise its link to CFP measures.

The studies of Berman et al. (1999) and Graves and Waddock (2000) are examples of isolated analyses of the respective components' effects on CFP. Both eventually come to the conclusion that a positive CSP/CFP-link exists (which – put this way – is an undifferentiated claim again). However, a number of other studies also used KLD data but only lead to non-significant[88] or – depending on the dimension in use – ambiguous[89] results. Similarly, Glaser et al. (2007) perform isolated correlation analyses between single CSP components and different measures of financial performance. The authors mainly find significant correlations between employees-related sub-ratings and financial accounting numbers. For their study, Glaser et al. (2007) draw on data from *oekom research*, a German corporate responsibility rating agency similar to KLD. Since these data will also be used in the empirical analysis later, Sect. 3.1.1.3 will critically review the methodology of the Glaser et al. (2007) study.

Ruf et al. (2001), p. 148, criticise that an equal consideration of each of the KLD dimensions overestimates the importance of certain criteria and therefore causes a bias in favour of less important aspects. Thus, they first interview experts on the importance of each component, then weight each category according to their responses and finally aggregate them into a cumulated index.[90] As a result of the subsequent regression analysis, they find a positive correlation between the index scores and different accounting-based financial indicators. Graves and Waddock (1994) use the same method for measuring CSP. They discover a positive link between a company's CSP and its attractiveness for institutional investors, but fail to prove positive results as to its relation with market-based and accounting-based CFP measures. Waddock and Graves (1997), however, use the identical procedure and confirm their hypotheses that there is a positive and significant influence of

[87] For a description, see Sharfman (1996), pp. 288 et seq. and Graves and Waddock (1994:1098). Later, KLD rated along ten dimensions, see Waddock (2000), p. 30 and even 12 dimensions, cf. Mattingly and Berman (2006), p. 29. Since assessments take place on the basis of both surveys as well as third party information (media, etc.), all three sources of data referred to above (see Fig. 2.4) are included in this CSP-measure.

[88] Cf. Guerard (1997); Kurtz and DiBartolomeo (1996); McWilliams and Siegel (2000).

[89] Cf. Graves and Waddock (1994); Hillman and Keim (2001); Johnson and Greening (1999).

[90] Each company's score is then calculated according to the formula $CSP_i = \sum w_j \times a_{ij}$. For an in-depth description of the procedure concerning the weighting factors w_j, cf. Ruf et al. (1998).

CSP on CFP and *vice versa*.[91] Another way of aggregating several indices into one score can be found at Griffin and Mahon (1997). The authors take four different indices,[92] built an average rank for each company, and thereby form a comprehensive index. They then measure this CSP proxy against five different indicators of financial performance, with mostly positive results.

Similar to the direct use of data from rating agencies for correlation analyses are performance studies of socially-screened investment funds and indices. As the latter are constructed on the basis of data from rating agencies such as KLD, they principally correspond to the hitherto mentioned studies. However, they do differ with respect to the CFP measure, as they compare the funds' and indices' stock market performance to that of conventional portfolios. As a result of his review of such studies, Schröder (2004) concludes that socially-screened funds and indices generally do not significantly differ from conventional ones in their economic performance. These findings are in accordance with his "own performance analyses [which] show that most of the German, Swiss and U.S. SRI investment funds do not significantly underperform their benchmarks."[93]

2.2.3.5 Meta-Analyses

As a reaction to the fact that previous research into the CSP/CFP-link had not succeeded in coming to clear results, efforts emerged to analyse already existing investigations and in this way to draw generalisable conclusions. Several narrative meta-analyses try to resort previous studies, find explanations for their mixed results, and reorient future research.[94] In contrast, Orlitzky et al. (2003) conducted a quantitative meta-analysis. In this study, the authors start with the assumption that differences in empirical results concerning the CSP/CFP-link are traceable mainly to differences in measuring social and financial performance. Hence, referring to the quantitative meta-analysis technique proposed by Hunter and Schmidt (1990), they try to identify the "true score correlation" of each study, that is, correlations that are cleared up from influences of differences in samples and in measurement strategies. As a result, they find support for their hypothesis and conclude that "there is a positive association between CSP and CFP across industries and across study contexts."[95]

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[91] In order to test the influence of financial performance on CSP, Waddock and Graves (1997), pp. 310 et seq. once use financial measures as independent variables and CSP as the dependent variable (and the other way around to test CSP's influence on financial performance).

[92] They use an index built from KLD data, the Fortune Reputation Index, the Toxic Release Inventory Index and a rank based on corporate charitable donations. Cf. Griffin and Mahon (1997), pp. 14 et sqq.

[93] Schröder (2004), p. 131. For another overview with the same conclusion, cf. Schäfer and Stederoth (2002), p. 129.

[94] See for instance Allouche and Laroche (2005); Bakker et al. (2005); Margolis and Walsh (2003); Pava and Krausz (1996); Preston and O'Bannon (1997); Roman et al. (1999).

[95] Orlitzky et al. (2003), p. 423.

As the analysis of selected empirical studies has shown, research into the CSP/CFP-link has so far failed to provide a homogenous picture, let alone unanimous results. The following chapter offers an explanatory analysis of this and draws conclusions that lay the grounds for the empirical analysis, which will follow in the course of this thesis.

2.3 A Framework for an Empirical Analysis of CSP

Based on the critique of earlier empirical studies, the following will argue that an examination of the CSP/CFP-link has to take place in a methodologically refined way. First, for the purpose of analysing such a link, it is of no use to employ aggregated measures of a company's social performance in a comprehensive sense, but it is appropriate to clearly separate single components of social performance and their respective relation to CFP (2.2.3.1). Second, before performing a statistical test of such a relation, it is advisable to ask what determinants might influence the level of CSR engagement at all (2.2.3.2). Finally, instead of looking for a universal link, a differentiated statistical analysis should ask why and under what conditions a certain link should exist. It is proposed that these questions can be taken into account by including moderating (2.2.3.3.) as well as mediating effects (2.2.3.4.) into the analysis. Figure 2.5 depicts the structure of the following:

2.3.1 Decomposing the Construct of CSP

Considering the fact that the studies reviewed above use so many different ways of operationalising the construct of CSP, other than ambiguous results as to the

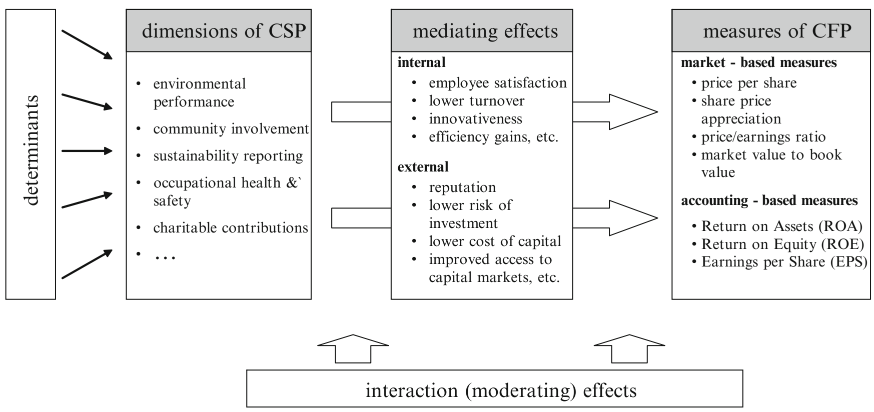

Fig. 2.5 A frame of reference for analysing the CSP/CFP-link

CSP/CFP-link would have been surprising. The number of lines in annual reports devoted to social issues for instance, and the amount of charitable donations, do not reflect the same construct. Therefore, claiming that these very different measures would reflect the same phenomenon, namely CSP, eventually denies the construct's inherently multidimensional nature[96] and renders the respective results incomparable. Even if the studies turned out to provide clear results, it would be impossible to interpret them. If, say, superior environmental performance and above-average philanthropic donations both proved to be beneficial for firm profitability, this would most probably be traceable to different reasons, which cannot be treated under the same term. This criticism especially applies to aggregated indices and quantitative meta-analyses that treat different studies as if they investigated the same facts. Looking for *the* ultimate CSP/CFP-link means treating different studies under the same label; this leaves no room for differentiation and leads to a loss of information. Eventually, with such a procedure, it cannot be said whether a strong correlation is due to a high environmental performance, good employee treatment, excellent community relations, or a superior corporate reputation. Correlation analyses should therefore only measure single CSP components' effects on a company's financial performance, instead of asking for the overall relation of CSP and CFP.[97] This would then lead to a more differentiated analysis than questions of the type "do socially responsible companies generally perform better?".

The problem then remains, how these single components could be identified. For the purpose of this paper, considering the difficulties to clearly define CSR and separate ethical from economic or legal issues, an identification of these dimensions has to rely on other criteria than those offered by common CSR definitions. Drawing on the results of Sect. 2.1, CSR issues can be distinguished by using instrumental aspects of the stakeholder concept and asking which stakeholders ascribe responsibilities to companies. Such an approach has of course certain implications for the definition of CSR. It understands CSR as the sum of responsibilities ascribed by various stakeholders due to their perceived value conflicts.

As already mentioned, this means that the concrete contents of the concept can vary according to the values holding for a given society at a certain point in time. If, for example, the companies' *social* responsibility were perceived to be identical with its duty to gain profits,[98] CSP would not need to be measured as an own construct. If, however, stakeholders *do* ascribe responsibilities other than purely economic ones to companies, the measurement of CSP has to include other dimensions such as environmental performance, relations to the community, working standards, etc. Given such an understanding, the measurement of CSP has to narrow down its research aim: Instead of asking what impact CSP (as one all-comprising, clearly

[96] Cf. point (4) on p. 18.

[97] In this respect, Rowley and Berman (2000) rightly argue that CSP should be used as a comprehensive *brand* for a topic of research, rather than as the label for one theoretical or operational construct. In the following – in spite of the suggestion to separately measure single components' effects on CFP – the undifferentiated terms "CSP" and "CSP/CFP-link" will still be used for the sake of simplicity.

[98] Cf. the cited literature in footnote 5.

defined concept) altogether *does* have, it is appropriate to ask what effects *single components* of CSP *can* have.

2.3.2 Explaining CSP: When can Superior Social Performance be Expected?

A second point addresses the probability of good social performance itself by scrutinising the so far widely neglected question, under which conditions a strong CSP can be expected at all. Before asking whether and what kind of a link exists between components of CSP and CFP, one should first analyse under what circumstances CSP might be important to companies. For instance, it would be counterintuitive to assume that privately owned mid-size firms in B2B industries have the same interests to pursue CSR strategies as highly visible, publicly traded producers of consumer goods. Identifying the main determinants of CSP is of specific relevance for the research aim of this thesis, because the indication of systematic reasons for companies to have CSR on their agenda might allow for initial conclusions as to the hypotheses concerning the CSP/CFP-link.

The search for determinants of CSP implies the question *why* companies should have an increased interest to perform well along a certain dimension of CSR. In an approach to address this question normatively (*should* companies admit social responsibilities?), recent efforts have tried to understand CSP by attributing a new political role to business in today's societies and also assuming a changed self-perception of companies.[99] A positive analysis of the question why companies actually *do* pursue CSR strategies can, however, as well manage without the assumption of a new societal role of business. This would then mean to interpret CSP as a mere market response which can be put down to the firm's profit-maximizing calculus. This implies that assumptions as to the corporate rationale to pursue such strategies are held constant, and the focus of analysis shifts to changes in societal demands directed to the company. CSR engagement, including the implementation of organisational structures and management tools, is then interpreted as the effort to seek legitimacy by adhering to new environmental expectations rather than to changing internal requirements.[100] To put it differently, the company's assumed social responsibilities are merely a "parameter of action",[101] that is, just another restriction that has to be taken into account within the firm's economic rationality.[102]

[99] Cf. for instance Palazzo and Scherer (2006). See also the discussion in Utting (2000), p. 9 et sqq., whether one can rightly assume a "paradigm shift" in business.

[100] Cf. Meyer and Rowan (1991); Scott (1995), pp. 66 et sqq.; Süß and Kleiner (2006), pp. 526 et sqq.; Walgenbach and Beck (2003), pp. 498 et sqq.; see also Sect. 2.1.2.1.

[101] Picot (1977), p. 37 (my translation).

[102] Such a positive analysis can of course be used for prescriptive propositions, which then leads to instrumental and finally normative theory. For such a normative managerial CSR approach, see McWilliams and Siegel (2001).

From such a perspective, it is unlikely that all companies evenly pursue CSP under all circumstances, because external expectations to companies generally vary according to determinants such as the industry, product characteristics, or firm size, to name just a few. Therefore, an empirical investigation of CSP's economic effects first has to analyse in which cases companies (do not) have an incentive to pursue certain CSR strategies. Such an analysis is of a crucial importance for subsequently deriving hypotheses concerning the CSP/CFP-link. Examples of such determinants include the owner structure of the company, the degree to which respective industries are unionised, possible shortages of skilled workers, firm size and diversification, industry and company visibility.[103] Although not all of these determinants can be taken into account in this study, Sect. 3.2 presents an empirical analysis of selected drivers of CSP. It does so by asking which factors help predicting good or bad performance with respect to certain aspects of CSP.

2.3.3 Interaction Effects: Under What Conditions Should a Link to Financial Performance Exist?

Besides identifying determinants that influence the extent of CSP itself, an analysis also has to clarify, which parameters might influence its link to financial performance. Assuming an unconditioned relation between respective measures for social and financial performance would mean to deny both that socially irresponsible behaviour does pay in certain cases and that in other cases, beyond-compliance behaviour can turn out to be very costly without being outbalanced by future returns.[104] In econometrics, parameters that can influence the strengths and direction of the relation between two other variables are called interaction effects. Such effects are sometimes also called moderator effects because the interacting third variable which changes the relation between two original variables is a variable that moderates the original relationship.[105] An empirical investigation of the CSP/CFP-link thus has to take into account interaction effects which help explain under which circumstances such a link might exist.

Hence, instead of empirically testing the existence of a universal link between (components of) CSP and financial indicators, it might be useful to apply a contingency approach. This allows for an analysis of the conditions, under which strong CSP comes along with superior economic performance, or, on the contrary,

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[103] Cf. McWilliams and Siegel (2001); Thompson and Smith (1991), p. 31; Ullman (1985).

[104] The fact that the business case argument is not self-evident becomes clear through the statement of a businessman quoted in Utting (2000), p. 21: "If the 'win-win' argument were so compelling (i.e. if there were such scope for simultaneously making profits and improving a company's social and environmental performance), then we wouldn't be sitting around this table." For studies that (contra-intuitively) identify *adverse* effects of a company's CSR efforts on potential customers' evaluation of the firm, see Schwaiger (2004) or Sen and Bhattacharya (2001).

[105] Cf. Hair et al. (2006), pp. 201 et sqq.

with financial losses. The resource-based view of the firm offers a useful frame of reference for such a conceptual analysis, as it helps explain under which (external) conditions (internal) resources or "core competencies"[106] can be turned into a competitive advantage.[107] By definition,

> "…*firm resources* include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness."[108]

Not all resources, however, lead to competitive advantages. In order to hold the potential of providing competitive advantages to the respective firm, resources have to display certain characteristics: They have to (a) be able to exploit opportunities and/or neutralise threats in a firm's environment; (b) be either tacit, socially complex or rare among a firm's competitors; (c) be imperfectly imitable; and (d) have no substitutes that fulfil the first three conditions.[109]

Applied to the context of this study, the ability to exploit opportunities by implementing CSR strategies can be seen as a firm's (internal) resource that it can, under certain (external) circumstances, turn into a valuable asset.[110] In the course of the following, it will therefore be necessary to first identify such conditions and test their moderating effects on the link to CFP by including them into the empirical analysis.

Earlier conceptual and empirical work on the CSP/CFP-link already offers several suggestions for potential moderators that help bring together internal capabilities and external conditions – however often without offering ways to statistically operationalise these moderators. Examples include management's strategic posture towards environmental[111] or social[112] demands; industry growth[113] and visibility[114]; a firm's capability for process innovation and implementation[115]; consumers' attitude to CSR and their beliefs about the relation between a company's CSR efforts

[106] Prahalad and Hamel (1990).

[107] See for instance Barney (1991), p. 102; Conner (1991), p. 122; Grant (1991), p. 118; Hart (1995), p. 988; Russo and Fouts (1997), pp. 536 et sqq.; Wernerfelt (1984), p. 172. For a strategic management approach to CSR, see Porter and Kramer (2006).

[108] Barney (1991), p. 101 (italics in original).

[109] Cf. Barney (1991), pp. 105 et seq.; Hart (1995), pp. 989 and 998.

[110] Cf. Hart (1995); Russo and Fouts (1997) that understand environmental performance as a corporate resource. Concerning CSR and the resources-based perspective, see Branco and Rodriguez (2006) and the literature cited there.

[111] Cf. Wagner and Schaltegger (2004), pp. 559 and 562. Considering the said above, it is critical to assume strategy to moderate the CSP/CFP-link, though. Understanding CSR as a market response, strategy should rather be seen as a function of its importance: professional CSR management can only be expected where external pressure asks for it and where it therefore pays to have one (see also Sect. 2.3.2).

[112] Cf. Ullman (1985), pp. 551 et seq.

[113] Cf. Russo and Fouts (1997), pp. 540 et sqq.

[114] Cf. Ullman (1985), p. 542.

[115] Cf. Christmann (2000), p. 669.

and its ability to make quality products[116]; stakeholder power[117] and their ability to engage in networks[118]; country-specific regulatory differences or industry market structure[119]; and managerial orientation towards stakeholders.[120]

Understanding CSR as a market response, a positive CSP/CFP-link is more likely to exist in those instances where the company has an interest to intensify its CSR efforts. In other cases, however, increased CSP can even lead to an economic underperformance: if a company spends more resources for CSR without expecting respective returns, it will – *ceteris paribus* – be less profitable than a comparable competitor. This example illustrates the close interrelations between determinants of CSP and moderators of the CSP/CFP-link. Despite these similarities it is important to note that, in the terminology used in the following, determinants and moderators are conceptually different: while determinants influence the CSP level itself, moderators influence its link to financial performance. If CSP can be considered as a rational market response,[121] variables that prove to increase the probability of a high/low CSP are most likely to have a moderating effect on the CSP/CFP-link. Due to technical restrictions, not all of the conceivable interaction effects can be employed in the empirical study presented later. To focus on the most important ones, Sect. 3.2 examines potential drivers (determinants) of a high CSP and will thereby identify the most promising candidates for interaction effects employed in Sect. 3.3.

As mentioned earlier, identifying moderators means asking under which conditions a certain relation might exist. Additionally, one can assume that if such a link exists, it does not do so to an unlimited extent. In the contrary, there presumably is a level of CSR efforts where the company meets societal expectations to a satisfying degree.[122] Arguably, the marginal utility of additional such efforts will turn negative from that point on. By depicting the relation between CSP and economic performance as an inverted u-shaped curve, researchers have repeatedly formalised this assumption.[123] However, empirical studies on the CSP/CFP-link have seldom used a function of such a type.[124] Section 3.5 will address the idea of decreasing marginal net benefits from investments into CSP and present a possibility to statistically test the empirical validity of this assumption.

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116 Cf. Sen and Bhattacharya (2001), p. 227.

117 Cf. Mitchell et al. (1997), p. 878; Barnett (2007).

118 Cf. Rowley (1997).

119 Cf. Wagner and Wehrmeyer (2002), p. 137.

120 Cf. Berman et al. (1999), p. 492.

121 Cf. pp. 32 et sqq.

122 See McWilliams and Siegel (2001), who conclude that form a managerial perspective there is an "ideal level of CSR".

123 Bowman (1973), p. 25; Picot (1977), p. 33; Schaltegger and Synnestvedt (2002), p. 341; Ullman (1985), p. 542; Wagner et al. (2002), p. 135; Wagner and Schaltegger (2004), p. 558. For a visualisation of this idea, cf. Fig. 2.12 on p. 92 of this thesis.

124 For an effort to take into account decreasing marginal returns of CSP when measuring its relation to economic performance, see Bowman and Haire (1975).

2.3.4 Mediating Effects: Why Should a CSP/CFP-Link Exist?

Statistical tests of empirical correlations first require conceptually derived hypotheses concerning these interrelations.[125] In the case of economic impacts of corporate social performance, such predictions have to be based on theoretically deducted arguments on why the performance on a certain component of CSP should have financial effects for a given company.[126] Hence, another argument starts with the observation that there is no reason for the existence of a (causal) relationship between CSP and CFP unless one takes into consideration certain mechanisms that provide an explanation for why such a link should exist. That is, when asking for such an explanation, one has to look for mediating effects. The ability to sustain higher margins due to a better customer reputation on the one hand, and having higher employee satisfaction which leads to better productivity on the other hand, both might have positive impacts on a firm's financial performance, but through very different and distinct mechanisms. Clearly distinguishing between these different mechanisms is not only important for methodological reasons but also for management that has to base its CSR related (investment) decisions on a profound understanding of their consequences. A first approach to identifying mediators lies within the distinction between organisationally internal and external effects of CSP.

Mediators reflecting internal effects consider advantages that the organisation can achieve through CSP internally and that lead to economically relevant benefits. This first of all applies to the firm's employees, who may support the company's CSR activities and therefore perceive increased satisfaction and identification with their jobs, which in turn can result in lowered absenteeism and turnover.[127] This identification effect can furthermore enhance a given company's ability to attract qualified employees.[128] Concerning the production processes within the firm, especially environmental management and related process improvements can help the company develop competencies that lead to more efficient work processes[129] and enhanced innovativeness.[130] Furthermore, eco-oriented management might be better prepared for anticipating and handling risks.[131]

A company's social performance does not only have an impact on management and employees but is also observed by stakeholders outside the firm. That makes it plausible to assume that CSP causes certain external effects. Arguably most intensively researched in this context are reputational effects of CSR efforts. In the broadest sense, CSP can be seen as a means to ensure a company's legitimacy

[125] Cf. Backhaus et al. (2006), p. 7.

[126] See Ullman (1985), pp. 551 et sqq.; Wood and Jones (1995), pp. 230 et sqq.; Rowley and Berman (2000), p. 405.

[127] Cf. Berman et al. (1999), pp. 489 et seq.; Clarkson (1995), p. 93; Maignan et al. (1999), p. 459; Riordan et al. (1997); Wagner and Schaltegger (2004), p. 564.

[128] Cf. Turban and Greening (1997).

[129] Cf. Hamschmidt and Dyllick (2001); Hart (1995), pp. 998 et sqq.

[130] Cf. McWilliams and Siegel (2000), pp. 605 et seq.

[131] Cf. Shrivastava (1995).

within society, or as it is sometimes called, its "license to operate".[132] More detailed, empirical investigations have found that perceived CSP in general, and particularly environmental performance,[133] has – mostly positive – effects on a firm's overall reputation.[134] Such superior reputation is an important corporate asset as it influences consumer behaviour[135] and enables companies to add price premiums on their products.[136] CSP might also come along with financially benign effects on capital markets. It can for instance lower a company's capital costs (as socially responsible firms tend to be less risky investments[137]) and enable access to certain new capital markets.[138]

Given the existence of such potential internal and external mediating effects, an empirical investigation of the CSP/CFP-link first has to analyse which components of CSP might have an influence on these mediators. This will be accomplished in Sect. 3.3.1 which thoroughly derives hypotheses as to the single components' effects on firm financial performance.

[132] Cf. Hansen and Schrader (2005), p. 384; Hart (1995), p. 999.

[133] Cf. Hart (1995), p. 999; Russo and Fouts (1997), p. 539.

[134] See for instance Eberl and Schwaiger (2006); Hansen and Schrader (2005), pp. 383 et seq.; Schwaiger (2004); Sen and Bhattacharya (2001), p. 226.

[135] Cf. Maignan et al. (1999), p. 459; Mohr et al. (2001); Sen and Bhattacharya (2001).

[136] Cf. McWilliams and Siegel (2001), p. 119.

[137] Cf. Graves and Waddock (1994), pp. 1043 et seq.; Fombrum et al. (2000); Spicer (1978b, pp. 75 et sqq.; Wagner and Schaltegger (2004), p. 564.

[138] This argument refers to capital markets associated with S*ocially Responsible Investment* (SRI). For a recent overview, see Schröder (2004).