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Investigating The Dimensions Of Social Responsibility And The Consequences For Corporate Financial Performance

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Abstract
Corporate social responsibility as an area of scientific inquiry has received little attention in the popular and academic press during the last decade. Efforts to investigate social responsibility and its relationship to corporate performance have been frustrated by a lack of adequate operationalizations and measures of social responsibility. Regardless of the reasons for this inattention to the is- sues of corporate responsibility, the tide appears to be turning. Recently, TIAA-CREF, the largest institutional trader in the country, initiated an optional fund which invests exclusively in firms that are deemed socially responsible. Such actions suggest that corporations will increasingly be held accountable for activity of concern to multiple stakeholder groups. As a result there will likely be a renewed interest in identifying the dimensions and consequences of corporate social responsibilities.

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Investigating The Dimensions Of Social Responsibility And The Consequences For Corporate Financial Performance

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Corporate social responsibility as an area of scientific inquiry has received little attention in the popular and academic press during the last decade. Efforts to investigate social responsibility and its relationship to corporate performance have been frustrated by a lack of adequate operationalizations and measures of social responsibility. Regardless of the reasons for this inattention to the issues of corporate responsibility, the tide appears to be turning. Recently, TIAA-CREF, the largest institutional trader in the country, initiated an optional fund which invests exclusively in firms that are deemed socially responsible. Such actions suggest that corporations will increasingly be held accountable for activity of concern to multiple stakeholder groups. As a result there will likely be a renewed interest in identifying the dimensions and consequences of corporate social responsibilities.

Cameron has suggested that multiple perspectives of organizational effectiveness exist and that "consensus regarding the best, or sufficient, set of indicators of effectiveness is impossible to obtain" (1986: 541). The same arguments can be made regarding social performance as a specific aspect of overall corporate performance. Social responsibility continues to be a poorly defined as well as difficult to measure concept. There appears to be no real agreement as to what constitutes social performance. What is indicated, however, is the need to apply measures which address multiple criteria of social performance. This study attempts to specify the underlying dimensions of a multiple measure of corporate social responsibility and investigate the relationship between corporate social performance and multiple measures of financial performance. For the purposes of this study, corporate social performance represents a measure of a firm's attentiveness to multiple stakeholder groups. We employ previously unavailable objective measures of social responsibility which overcome some of the methodological problems which have stalled prior research efforts, and propose a working model of social responsibility and its relationship to financial performance.

THEORETICAL FOUNDATIONS

Historically, the responsibility of firms was defined purely in economic terms. For example, Friedman (1990) considered maximization of shareholder wealth as the sole objective and responsibility of the well managed firm. This perspective generally cast corporate activity as a zero-sum game. Whatever resources were expended in the interests of social responsibility came at the expense of shareholders (Wartick and Cochran, 1985). The interests of shareholders and other stakeholders were defined implicitly as conflicting and mutually exclusive.

Many criticisms have been leveled at this perspective and it seems safe to conclude that corporations are no longer viewed, even theoretically, as solely economic institutions (Sharfman, 1992). At a very minimum, there appears to be a consensus that firms serve multiple constituencies and stakeholder groups whose memberships are overlapping and whose interests are interdependent (Aram, 1989; Freeman, 1984; Nash, 1990). An understanding of such relationships and an attendant concern for the interests of all stakeholder groups may force firms to act in a socially responsible way regardless of their motivation (Sen, 1993).

Out of these perspectives come varied hypotheses regarding the relationship between social responsibility and corporate economic performance. When corporations are viewed as economic institutions, a negative relationship between social responsibility and profitability is assumed (Ullmann, 1985). The opposing hypothesis suggests a positive relationship between social responsibility and performance. Proponents of this perspective argue that socially concerned management is likely to also possess the skills necessary to achieve superior financial performance (Alexander and Buchholz, 1978; Metzger *et al.*, 1993). A final perspective hypothesizes an inverted U-shaped correlation between social and economic performance. To an optimal level, social and economic performance are positively related. Beyond an optimal level, however, social performance and the commensurate resource allocations negatively affect economic performance (Ullmann, 1985).

EVIDENCE TO-DATE

The findings reported by the large body of work investigating the relationship between social and economic performance are inconsistent and evidence exists to support each of the hypothesized relationships. Vance (1975) has applied Moskowitz's (1972) and the *Business and Society Review's* reputational surveys and has found a negative relationship between social performance and stock price changes. The majority of other studies have not supported these findings. In fact Moskowitz's (1972) own study, over a much shorter 6 months time frame, reveals a positive correlation between social performance and stock price. Alexander and Buchholz (1978) also fail to support Vance's findings regarding the *Business and Society Review's* measures. Their finds do not indicate any correlation between social performance and stock returns. Other work employing Moskowitz's measures indicates only a weak positive relationship between social reputation and economic performance when controlling for the age of the firm's assets (Cochran and Wood, 1984). Sturdivant and Ginter's (1977) results show that executives of firms classifed as "best" by Moskowitz exhibit more liberal social attitudes and that these attitudes are positively associated with both corporate social and economic performance.

Many studies have employed the Council on Economic Priorities' (1972) pollution control measure as a proxy for social performance (Bragdon and Marlin, 1972; Bowman and Haire, 1975; Folger and Nutt, 1975; Chen and Metcalf, 1980; Spicer, 1978a, 1978b). Both Bragdon and Marlin (1972) and Spicer (1978a) report a positive relationship between pollution control and return on equity (ROE). Other work, however, has suggested no correlation (Folger and Nutt, 1975) or a curvilinear correlation (Bowman and Haire, 1975) between pollution control and ROE and other economic performance measures. An explanation for these conflicting findings is provided by Chen and Metcalf (1980) who refute earlier results. Their work indicates that the positive correlation Spicer reports is spurious and disappears when firm size is controlled for.

More recently, Aupperle, Carroll, and Hatfield (1985) used forced choice surveys to investigate the relationship between corporate responsibility and economic performance. Aupperle et al. (1985) do not indicate any relationship between CEO attitudes regarding social responsibility and corporate profitability. This may be a result of using a forced choice self-report survey instrument and subsequent categorizing by judges, which inherently sets corporate behavior up as a zero-sum game. Two research efforts, McGuire, Sundgren and Schneeweis (1988) and Simerly (1992), used the *Fortune* reputation data to examine the corporate responsibility/performance relationship. McGuire et al. (1988) show that prior performance is more strongly related to social responsibility than subsequent performance. This result is not surprising in light of the "halo effect" inherent to the *Fortune* data. McGuire et al. (1988) also found an inverse relationship between social responsibility and corporate risk, which is consistent with the findings of Spicer (1978a), as previously noted. Presumably this relationship is a function of the reduced exposure to lawsuits and fines for socially responsible firms. Another study using the *Fortune* rankings (Simerly, 1992), found that firms ranking high on corporate social responsibility had higher revenues than low ranking firms, but also concluded that financial performance is impacted by so many other variables as to make its relationship with social responsibility tenuous at best.

Clearly, the results of previous studies present inconsistent evidence regarding the relationship between corporate social and economic performance. The explanation for these inconsistencies probably lies in the fact that the studies have employed widely disparate methodologies based on mostly subjective self-reports of responsible actions. The methodological approaches and their inherent strengths and weaknesses are addressed in the following section.

METHODOLOGICAL ISSUES

Social Responsibility Measures

Previously applied measures of social responsibility include reputational indexes and forced choice survey instruments. This section discusses each type of measure.

Reputational Indexes

Reputational indexes have been the most widely used measures of social responsibility. As previously noted, the Moskowitz (1972) reputational measure has been used in numerous studies (Moskowitz, 1972; Vance, 1975; Sturdivant and Ginter, 1977; Cochran and Wood, 1984). The primary problem associated with this measure is its undetermined reliability. Moskowitz provides very little information regarding his assessment methods. As a result, the derivation should be conservatively viewed as *ad hoc* with all the attendant caveats usually applied to this relatively subjective measurement. The concerns also apply to the use of the *Business and Society Review's* measures also used by Vance (1975) and Alexander and Buchholz (1978). An equally prevalent reputational measure of social responsibility has been provided by the Council on Economic Priorities (CEP) (1972). The CEP reported the pollution control performance of 24 firms in the paper and pulp industry. This measure has been subsequently used as a proxy for social responsibility in numerous studies (Bragdon and Martin, 1972; Bowman and Haire, 1975; Folger and Nutt, 1975; Chen and Metcalf, 1980; Spicer, 1978a, 1978b). This measure is inadequate for several reasons. First, it assumes that social responsibility is a unidimensional concept which can be captured in an investigation of the firm's pollution control record. This assumption in turn requires assuming the commonality of interests of all stakeholder groups. The validity of the assumption is questionable in light of the sheer number of affected stakeholder groups. Second, the pollution control measure has only been provided for a single industry. This severely limits the external validity of the findings since it is probably inappropriate to assume that the dimensions of social responsibility are similar across industries. The interests of stakeholder groups and their ability to affect corporate activities are also likely to vary with respect to the nature of the industry, be it upstream manufacturing, consumer products or service oriented.

McGuire et al. (1988) have more recently employed the *Fortune* reputational measure which is comprised of executive rankings of firm performance within certain industries.

The largest 10 firms within each industry are rated on eight dimensions: financial soundness, long-term investment value, use of corporate assets, quality of management, innovativeness, quality of products and services, ability to hire and maintain qualified personnel, and community and environmental responsibility. It is not clear whether McGuire et al. (1988) used only the social responsibility measure or an aggregate measure of all eight dimensions. They cite previous work indicating a strong correlation between the *Fortune* rankings and financial performance as evidence of the validity of the measures. In fact, the opposite is likely true. Other work (Slater and Brown, 1988) has shown a strong "halo effect" within the *Fortune* rankings. The results of principal component analysis Slater and Brown (1988) report indicates that a single component explains 83% of the total variance and that all attributes loaded at least .8 on the single factor. They suggest that financial performance is most likely the source of the halo since available public information is generally limited to financial results. This may explain McGuire et al.'s (1988) findings that past performance is more strongly related to social responsibility than future performance. At a minimum, the evidence casts suspicion on the use of the *Fortune* reputational survey as a valid measure of social responsibility.

Forced Choice Instruments

Aupperle et al. (1985) have broken new ground by using a forced choice survey instrument to measure social responsibility. While their method minimizes the social desirability response bias, it creates other problems. A forced choice instrument creates a zero-sum game, inherently pitting economic and social responsibilities against each other. Such an approach eliminates the possibility that social and economic performance may be positively related and suggests the possibility that their findings of a negative relationship may be a statistical artifact of the methodology.

In sum, there are several issues that have been neglected by previous research measuring social responsibility. First, there is the issue of reliability; that is, there has not been a clearly articulated and rigorously applied criterion. Second, previous measures have not been objective and free of bias and "halo effects." Third, multiple stakeholder groups and dimensions of social performance have not been considered. Finally, previous measures have not allowed for the various possible permutations of the economic performance/social responsibility relationship.

Performance Measures

Issues regarding the choice of performance measures are slightly more straightforward. Choices are limited to relatively common financial accounting or market based measures. There are advantages and disadvantages associated with each. Accounting based measures are more easily manipulated and are historical rather than reflective of performance expectations. In addition they do not allow for the easy incorporation of risk considerations and economic and market factors. On the other hand, accounting based measures are equally relevant for most stakeholder groups.

Market based measures have limited relevance for stakeholder groups outside the investment community. These measures are, however, reflective of expectation and incorporate risk and market and economic factors.

The use of accounting and market based measures of financial performance are not mutually exclusive. In light of the fact that inconsistent performance valuations may have contributed to the consistent results previously reported, this study includes both accounting and market based measures of performance. More recent studies have taken this approach (McGuire et al. 1985).

HYPOTHESES

In total, the previous work points to two hypotheses. Specifically, previous work points to the existence of multiple stakeholder groups who variously define and measure social and overall corporate performance. As such, social performance cannot be captured using unidimensional measures. This study seeks to determine the underlying objective dimensions of social responsibility and relate them to the concerns of various stakeholder groups.

Hypothesis 1: Social performance is a multidimensional construct. Factor analysis will produce more than one unique factor.

Stakeholder groups are likely to apply performance criteria most relevant to their concerns. Consequently, questions regarding the social responsibility/performance relationship are likely to depend both on what social responsibility criteria are measured and what performance criteria are applied. The idea that measures of performance are not uniformly relevant to all stakeholder groups suggest the second hypothesis.

Hypothesis 2: The dimensions of social responsibility are related to alternative measures of financial performance in different ways.

METHODOLOGY

This study employed the ratings of social responsibility reported by the Council on Economic Priorities (1989). This is the same organization which supplied the pollution control measure applied in numerous other studies. Rankings were available for 75 consumer product firms in 1988 and 104 firms in 1989. Firms were rated on 10 dimensions of social responsibility: contributions to charity, advancement of women, advancement of people of color, defense contracts, animal testing, disclosure, community outreach, nuclear power, involvement in South Africa and environmental record. Firms included in the 1989 sample were also scored on a family benefits measure. This measure was excluded from the analysis for consistency. Only the 75 firms for which there were scores for both 1988 and 1989 were included in the factor analysis. Only including these firms allows for an examination of the stability of the factors from year to year. (See Appendix A for specific scoring criteria.) These measures represented an improvement over previously applied measures and more satisfactorily addressed the major measurement issues identified in the previous section. That is, they represented multiple aspects of social performance and were not selfreported, but scored by a more objective outside source.

In order to avoid the problems associated with performance measures addressed in the previous section, both accounting and market based measures of performance were used. This approach inherently acknowledged the existence of multiple stakeholder groups and further allowed for the possibility that relevant performance measures may vary with respect to stakeholder groups. Performance measures included Return on Assets (ROA), Excess Market Return (EMR) (return on firm minus return on market), and Earnings per Share (EPS). These performance measures were retrieved from the Compustat data tapes. The lack of performance, employee and shareholder data eliminated some firms from some procedures.

The data analysis consisted of a two-stage process. First, a factor analysis procedure was conducted in an attempt to specify the existing underlying dimensions of social responsibility. A varimax rotation procedure was used. Factor analysis procedures for 1988 and 1989 were conducted independently since the firms given for 1989 were inclusive of the firms given in 1988 and, consequently, did not represent independent observations. In addition, separate analysis provided some clues with regard to the stability of the underlying dimensions. Only the 75 firms included in both the 1988 and 1989 samples were included in the factor analysis. Factors with eigenvalues greater than one were retained. The second stage of the analysis examined the relationship between each of the dimensions and corporate performance. To accomplish this factors scores were computed for each firm and input as independent variables in regression procedures. Separate models for each of the three independent variables (ROA, EMR, EPS) were specified. This analysis was conducted for 1989. Sixteen of the 104 firms for which 1989 social performance data was available were excluded due to lack of financial performance data. A total of 88 firms were included in the 1989 regression procedures.

RESULTS

Table 1 provides correlations between the number of shareholders and employees and the social responsibility measures. These data provide some indication of the influence these stakeholder groups may have on the activities of the firm. In 1988, Women, Race, and Disclosure are positively correlated with the number of shareholders, and noninvolvement in South Africa and the military are negatively correlated with the number of shareholders. These relationships are consistent with the relationship between social responsibility measures and the number of employees in 1988. In 1989, the relationships between social responsibility and number of shareholders and employees is almost as consistent. Positive correlations exist between Women and Race and the number of employees and the number of shareholders. Charity, noninvolvement in Military and South Africa, Animal rights and Environment are negatively related to the number of shareholders, and Charity, noninvolvement in Military, South Africa and Environment are also negatively correlated with the number of employees.

The results of the factor analysis are given in Tables 2 and 3. It is important to remember at this point that high scores always represent the "socially responsible" position. The higher the score on Charity, Women, Race, Animal, Disclosure, Community, Environment and Benefits the more the firm is involved in these activities. The higher the score on Military, Nuclear and South Africa, the less the firm is involved in these activities. In 1988 (Table 2) four factors explain a total of 65.17% of the variance and in 1989 (Table 3) 3 factors explain a total of 53.46% of the variance. The factor pattern is not entirely consistent from 1988 to 1989, but shows stability on a number of dimensions. In both years, promotion of women, promotion of people of color (race), disclosure and community outreach load heavily on Factor 1. Factor 1 explains 22% of the variance in 1988 and 22% in 1989. Noninvolvement in military activities and concern for the environment load on Factor 2 in 1989, and together on Factor 3 in 1988. Animal rights and noninvolvement in South Africa load on a single factor in both 1988 and 1989. Charitable contribution also loads positively on this factor in 1989. The major difference between the two years' factor structures is that noninvolvement in nuclear activities and charitable contributions load together on a separate dimension in 1988, but are absorbed in Factors 2 and 3 respectively, in 1989.

The results of this analysis provide clear support for Hypothesis 1. The factor analysis indicates the multidimensionality of social responsibility as well as some stability of the underlying dimensions from year to year. Stability is greatest for Factor 1. Although Factor 2 in 1988 is absorbed into Factors 2 and 3 in 1989,

Table 1: Correlations of Social Responsibility with Number of Shareholders and Employees

	Number of Shareholders		*Number of Employees*	
Social Responsibility	1988 (N=65)	1989 (N=83)	1988 (N=66)	1989 (N=85)
Charity	-.05	-.20[3]	-.13	-.27[2]
Women	.34[1]	.24[2]	.32[1]	.28[1]
Race	.31[2]	.36[2]	.29[2]	.34[1]
Military	-.57[1]	-.39[1]	-.43[1]	-.27[1]
Animal	-.07	-.30[1]	-.05	-.03
Disclosure	.33[1]	.15	.34[1]	.09
Community	.07	-.07	.05	-.08
Nuclear	-.14	-.11	-.08	-.11
South Africa	-.20[3]	-.24[2]	-.36[1]	-.24[2]
Environment	-.05	-.34[1]	-.04	-.27[2]

[1] $p < .01$
[2] $p < .05$
[3] $p < .10$

Table 2: Social Responsibility Factor Structure 1988 (N=75)

Social Responsibility Variable	*Factor 1*	*Factor 2*	*Factor 3*	*Factor 4*
Women	.79431	.05007	-.83791	-.05572
Disclosure	.72734	-.36775	.15528	-.14280
Race	.68777	.21402	-.26698	.36494
Community	.56112	-.19912	.12711	.06774
Nuclear	.04145	.81711	.19366	-.03430
Charity	.23839	-.63868	.25189	.06564
Environment	.18234	-.23125	.81581	.04641
Military	-.18439	.39619	.69789	.12774
Animal	.23524	.08236	.02197	.80008
South Africa	-.30482	-.26616	.17815	.70125
Eigenvalues	2.2218	1.5788	1.3988	1.3171

Table 3: Social Responsibility Factor Structure 1989 (N = 75)

Social Responsibility Variable	*Factor 1 Internal Business Practices*	*Factor 2 Line of Business*	*Factor 3 External Concerns*
Women	.83184	-.00264	-.03159
Race	.78522	-.23186	-.02105
Community	.69446	.19445	.08608
Disclosure	.51808	.40246	-.32870
Environment	.18472	.74725	.09954
Military	-.29090	.72242	.17670
Nuclear	.03319	.44025	.04259
South Africa	-.10024	-.16357	.84874
Animal	-.00176	.29579	.58787
Charity	.07156	.29007	.44768
Eigenvalues	2.1942	1.7260	1.4262

Factors 3 and 4 for 1988 are very consistent with Factors 2 and 3 of 1989. The factors identified in 1989 have to do with Internal Business Practices, Line of Business and External Concerns, respectively.

The results of the regression procedures using factors scores are given in Table 4. Three separate models for the dependent variables—excess market returns (EMR), return on assets (ROA) and earnings per share (EPS)—are specified. The results do not indicate any significant relationships between the social responsibility factors and EPS or EMR. Factor 2 (Line of Business) and Factor 3 (External Concerns), however, are positive and negative determinants of ROA, respectively. These results provide clear support for Hypothesis 2.

The findings presented here indicate support for both hypotheses.

Table 4: Social Responsibility/Performance Regression Results (N=88)

Dependent Variables	*Independent Variable(s)*	*b*	R^2
ROA	Business Practices Line of Business External Concerns	-.0247 .2844[1] -.2057[2]	.093[2]
EMR	Business Practices Line of Business External Concerns	-.0385 .1482 .0311	-.01
EPS	Business Practices Line of Business External Concerns	-.0069 -.1581 -.1608	.02

[1] $p < .01$
[2] $p < .05$

Social responsibility is a multidimensional concept. This conclusion and the data are consistent with the stakeholder perspective of corporate responsibility since the dimensions of social responsibility identified in the data relate to distinct stakeholder groups. Comparing the factor structure of 1988 with 1989 also suggests that the dimensions of social responsibility may be fairly stable and becoming more consolidated over time. In addition, the regression results point to the conclusion that the social performance factors do not have the same impact on corporate economic performance. The discussion here centers on the analysis of the 1989 data.

DISCUSSION

The three factors identified generally reflect Internal Business Practices, Line of Business and External Concerns, respectively. The primary concerns identified in the first factor are related to business practices or internal issues regarding the promotion of women and people of color, disclosure, benefits and community outreach. This dimension of social responsibility appears to have to do with those things which are to some extent legally mandated or are tangibly related to employee well-being. In other words, these activities are those which may be seen as having the most direct impact on the firm and its productivity. These are probably less likely to be overlooked, but attention to these issues does not imply attention to other corporate social responsibilities.

The items loading on the second factor represent concerns of external stakeholder groups. These items have to do with activities which relate to the nature of the businesses that the firm chooses to operate. Specifically, noninvolvement in military and nuclear activities and environmental concern load heavily on this factor. Military and Nuclear involvement are directly related to line of business choices. While concern for the environment does not specifically relate to line of business, as measured here, it is in large part a function of the nature of the chosen business and industry.

Items that comprise the final factor (External Concerns) have to do with the concerns of external stakeholders which do not specifically relate to the firm's line of business. These activities have to do with charitable contributions, animal rights and involvement in South Africa.

In sum then, there appears to be an internal or more direct-link dimension, an external dimension which relates to industry choices, and an external dimension which is not necessarily related to the choice of industry. Firms cannot be classified as either socially responsible or socially irresponsible since activity with respect to one stakeholder group does not appear to be related to activity involving other stakeholder groups. The correlations provided indicate that activity on some measures of social responsibility is related to the number of shareholders and employees a firm has. These findings may reflect the ability of particular stakeholder groups to influence the activities of the firm. They may also reflect greater levels of disposable income among larger firms. Of course, it is impossible to draw anything other than tentative conclusions regarding these correlations. There are a number of explanations so causal interpretations of these data are not possible. Although identifying the determinants of social responsibility is beyond the scope of this paper, the correlations provide evidence of fruitful ground for future research.

The regression results suggest some interesting conclusions regarding the social responsibility/performance relationship. Hypothesis 2 states the the dimensions of social responsibility are related to alternative measures of financial performance in different ways. The data provide strong support for this conclusion. None of the dimensions of social responsibility are related to excess market returns (EMR) or earnings per share (EPS). Market returns are actually reflections of anticipated performance. This measure is of primary interest to the investment community. Consequently, the results indicate that high levels of performance on the social responsibility dimensions do not affect the investment community's view of the anticipated earnings of the firm. The same is true for earnings per share, the measure of greatest interest to the firm's shareholders. This measure is easily manipulatable since it is a function of the firm's earnings as well as the number of shares outstanding. Consequently, this measure may not accurately reflect the financial performance of the firm. High performance on the social responsibility dimensions is not related to earnings per share.

On the contrary, social responsibility is related to return on assets (ROA). The Line of Business factor and the External factor are positively and negatively associated with social responsibility, respectively. Firms that exhibit environmental concern and choose industries that are not deemed socially irresponsible achieve higher asset utilization levels. Firms that score high on External concerns realize lower asset utilization rates. This latter finding is surprising unless involvement in South Africa and low performance on animal rights measures are typical of high asset utilization industries.

Interestingly, Internal Business Practices are not related to any of the measures of financial performance. This may indicate that high performance on this dimension is a necessary but insufficient condition for financial performance. Since variables loading on this dimension have to do with largely legally mandated activities, high performance on this dimension may be taken more or less for granted. If this is the case, inattention or excess attention to this dimension may undermine performance.

CONCLUSION

The findings presented here provide strong evidence of the multidimensionality of social responsibility. In addition, the dimensions relate more or less to distinct stakeholder groups. The implication is that any attempt to employ unidimensional measures or proxies for social responsibility is questionable. In addition, the inconsistency of previous studies may be attributable to the use of such measures. Firms cannot be strictly classified as socially responsible or irresponsible based on a single measure. In general, the measure of a firm's social responsibility is very much a function of the stakeholder group who is evaluating the performance.

It appears that some aspects of socially responsible behavior are expected. These activities are typified by those loading on Factor 1, including promotion of women and minorities, community outreach and disclosure. The mere presence of these activities does not appear to enhance corporate performance. It may be that these activities are so important or are legally mandated to the extent that they are necessary but insufficient conditions for corporate performance. The absence of these activities, however, may have severe adverse consequences for corporate performance.

The dimensions of social responsibility are also related to different performance measures in different ways. Performance on Factors 2 (Line of Business) and 3 (External Concerns) do not impact external perceptions of firm performance, but apparently does affect actual performance in terms of ROA. This of course presents a dilemma to management who are charged with managing the utilization of the firm's assets as well as the perceptions of the firm's performance. This apparent conflict may be eventually resolved once the market recognizes the relationship between social responsibility and ROA.

The results of this study suggest several important conclusions for managers attempting to balance the conflicting demands of stakeholder groups. First, there appear to be multiple dimensions to corporate social responsibility, further bearing out the conclusion that multiple stakeholder groups do exist and must be managed effectively for the well-being of the firm. The assessment of the social performance of a firm is likely to vary depending on the party assessing the performance. Given the multidimensionality of social performance, it may be impossible to adequately address the interests of all relevant stakeholders groups. Ultimately, management may be required to weigh the interests of the stakeholder groups against each other and against the economic welfare of the firm.

Second, performance relative to the dimensions of social performance imply different outcomes for economic performance. While social performance does not appear to positively affect the market's anticipation of future performance, it does appear to tangibly affect economic performance. This is a very important finding and points to a misconception the market may have regarding the benefits of social responsible behavior. If this misconception of a zero-sum game continues to be maintained, management may be encouraged to view social and economic performance as mutually exclusive. However, the results presented here clearly point to the conclusion that they are not mutually exclusive, but are in fact, positively related. This is consistent with Graves and Waddock (1992).

As interesting as these initial findings are, there are certain limitations to the current study. Overcoming these limitations presents promising opportunities for future investigation. Although the social performance measure used here represents an improvement over many of the previously employed measures, it is not without limitations. Applying equal weight to the performance measures included eliminates information that would be valuable to a complete determination of the relationship between social and economic performance. In addition, the measures employed here should not be considered a definitive list of all aspects of corporate social performance. There are likely to be other salient concerns of the various stakeholder groups.

Overcoming these limitations provides fruitful ground for future research. Future work can focus on identifying the determinants of social performance. Although the data presented here show some interesting correlations between number of employees and shareholders and social performance, it is impossible to determine causality based on these results. Additional work is necessary to specify the nature of these relationships. At a minimum, the results presented here point to the importance of continuing to investigate the relationships between all aspects of corporate social and economic performance.

APPENDIX A

Giving to Charity:

Total worldwide *cash* donations (including direct corporate giving, foundation giving, and matching gifts) for the most recent year is figured as a percentage of the average of three previous years' pre-tax worldwide earnings.

4 - 2% or more of net pre-tax earnings given to charity.
3 - Over 1%.
2 - Over 0.6%, up to 1%.
1 - 0.6% or less.

Women's Advancement:

3 - At least two women on the Board of Directors and one among top officers (or vice versa).
2 - At least one woman on the Board or among top officers.
1 - No women on the Board or among top officers.

Advancement of People of Color:

3 - At least two people of color on the Board of Directors and one among top officers (or vice versa).
2 - At least one person of color on the Board or among top officers.
1 - No people of color on the Board or among top officers.

Military Contracts:

3 - Company has no nuclear weapons-related contracts over $1 million, and is not on the 1988 Department of Defense Top 100 list for either weapons manufacture or supply of fuel.
2 - Company has no nuclear weapons-related contracts over $1 million but appears as a weapons maker or fuel supplier in 1988 Department of Defense Top 100 list of parent companies receiving largest dollar volume of prime contract awards and/or is listed among top 100 prime contractors for Research, Development, Test and Evaluation work.
1 - Company has nuclear weapons-related contract(s) over $1 million.

Animal Testing:

3 - No animal testing.
2 - Company tests on animals but has reduced the number used in testing by 40% or more over the last five years and/or has given $250,000 or more to alternative research through in-house or independent labs.
1 - Company tests on animals; no quantitative report of reductions or major contributions to alternative research.

Disclosure of Information:

3 - Company provided substantial and substantive materials on its social programs and policies either by completing CEP's (Council on Economic

Priorities) questionnaire or providing comparable information in printed matter or phone interviews.

2 - Company provided some specific information either by partially completing CEP's questionnaire or providing comparable information in printed matter or phone interviews. Certain key questions were left unanswered.

1 - Company provided only the most basic information—an annual report, proxy statement and 10K, or less; or, if additional information were provided, it was not detailed enough to give any real indication of the company's performance.

Community Outreach:

3 - Strong programs promoting education, housing and/or volunteerism; little or no evidence of major labor disputes or litigation.

2 - Moderate community programs *or* mixed record; some good initiatives but some evidence of major litigation or labor disputes.

1 - Little or no evidence of programs designed to benefit community, and/or record shows major lawsuits or labor disputes.

Nuclear Power:

2 - Company has no involvement with nuclear power.

1 - Company supplies one or more of the following to the nuclear power industry: construction, production equipment, fuel or consulting.

South Africa:

5 - No involvement in South Africa.

4 - Licensing, distribution, and/or franchising agreements; non-strategic.

3 - Investment; non-strategic.

2 - Investment, licensing, distribution, and/or franchising agreements; strategic.

1 - Company has a foreign-based parent with investment, licensing, distribution, and/or franchising agreements in South Africa.

Environment: Large Companies

3 - Positive programs, such as the use and encouragement of recycling, alternative energy sources, waste reduction, etc. A record relatively clear of major regulatory violations.

2 - A mixed record; some positive programs such as use and encouragement of recycling, alternative energy sources, waste reduction, etc. Problems such as accidents, regulatory infractions, fines, complaints, etc.

1 - Company has a poor public record of significant violations, major accidents and/or history of lobbying against sound environmental policies.

Environment: Small Companies

3 - Makes strong effort to: 1) use biodegradable and/or recyclable materials in packaging products; 2) dispose of waste from manufacturing process

in an environmentally sound way; and 3) use only natural ingredients and organic growing techniques for food.

2 - Moderate effort to achieve above.
1 - Little or no effort to achieve above.

Family Benefits:

CEP has rated companies according to how many of the following family benefits they had in at least one location or division.

Parental Leave: Paid disability period for maternity (usually 6-8 weeks).

Child and/or Dependent Care Assistance: Reimbursement, referral, on-site day care.

Flextime: An arrangement whereby an employee may arrive and leave earlier, while working certain core hours and maintaining regular number of hours in workday; special summer hours were taken into account.

Job sharing: Two employees share one job, working morning or afternoon to suit needs.

Flexible Benefits: May include comprehensive "cafeteria" plans or more limited spending accounts funded by employee salary reductions.

3 - 4 or 5 of the benefits.
2 - 3 of the benefits.
1 - less than 3 of the benefits.

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