LINKS BETWEEN ECONOMIC VALUE ADDED AND SOCIAL

PERFORMANCE FOR SELECT AMERICAN COMPANIES

A Doctoral Dissertation Research

Submitted to the
Faculty of Argosy University, Washington DCG
College of Business

In Partial Fulfillment of
the Requirements for the Degree of

Doctor of Business Administration

by

Ahmed Omar

October, 2012

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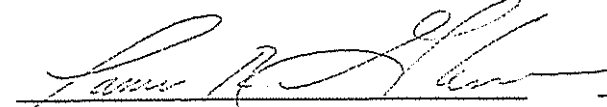
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Dissertation Committee Approval:

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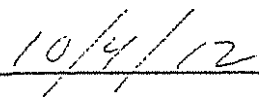Doctor of Business Administration

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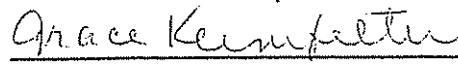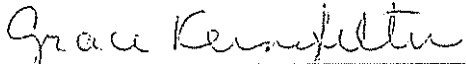Argosy University

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ABSTRACT

This research study examines the link between Corporate Social Responsibility and

Financial Performance (CSR-FP), and how it affects companies differently depending on

industry-specific dynamics. Industries and business owners are on a constant search for

maximizing financial performance and ethical behavior (Cotte & Remi, 2012; Goll &

Rasheed, 2004; Kumar, Lamb, & Wokutch, 2002). There is no one study that examines

this link in terms of industry categories. Emphasis is placed on the measurement of both

CSR and FP. Thus a quantitative methodology was used for the study. Company names

were obtained from the Fortune 500 list for 2011. Findings of this study indicate that

higher levels of CSR are associated with a small advantage in financial performance. This

advantage accounts for no more than 1-2% of variation. Research findings show that

despite the amount of research conducted on the link between corporate social

responsibility (CSR) and financial performance (FP), there is still much research to be

done to determine the many possible dimensions that are related to the CSR-FP

relationship.

ACKNOWLEDGEMENTS

DEDICATION

This dissertation is personally dedicated to my wife Miriam, my daughter Aya, and my son Adam. This dissertation is professionally dedicated to my dissertation committee Dr. Glenn, Dr. Klinefelter and Dr. Baker. It would not have been possible without you all.

Finally, this Dissertation is in memory of Jay Buchanon, friend and colleague, deeply missed.

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CHAPTER ONE: INTRODUCTION

Is Corporate Social Responsibility also known as CSR a predictor of financial

performance? There are a lot of researchers that have dedicated a great amount of time

and effort to answer this question. (Barnett& Salomon,2006;Garcia-Castro, Arino, &

Canela, 2010) are individuals who have completed research studies using an independent

variable (IV) which was the Corporate Social Responsibility and their Dependent

Variable (DV) was the Financial Performance (FP), which they used to run a linear

regression analyses. Corporate Social Responsibility and Financial Performance, will

now be referred to as (CSR), and (FP), have been utilized in many different ways by

researchers. Within a variety of social responsibility indexes, CSR was operationalized as

performance. The Social Investment Forum also known as (SIF), Ethical Investment

Research Services also known as (EIRS), KLD Research and Analytics (KLD), are, and

are not limited to the indexes that operationalize CSR as performance in addition to FP

which is usually reflected in the Return On Assets (ROA), Return On Stock (ROS),

Return On Equity (ROE), Market Value Added (MVA), and Economic Value Added

(EVA).

Between years 1990 and 2007, 192 studies were disclosed in a meta-analysis

conducted by Margolis, Elfenbein, and Walsh (2007), where 130 of these studies

resulted in CSR having an impact on FP no matter how the variables were

operationalized. So, when using CSR as the IV and FP as the DV, the R^2 of the ensuing

model is normally more than .250, which shows that 25% and potentially more, of the

variation in FP, is directly related to CSR.

EVA has been used as the operational variable for FP by at least five researchers including Dunn and Sainty (2009), Hillman and Klein (2001), Konar and Cohen (2001), Scholtens (2008), and Zhang and Rezaee (2009).

One of the Social Investment Forum's (SIF) purposes is to rate businesses based on their performance in how they are socially responsible. Investment consultants, financial advisors, and researchers comprise the Social Investment Forum, and they are responsible for ranking companies in their levels of social responsibility. Their rankings are based on various qualitative and quantitative research methods (US SIF, 2011). SIF is not connected to any other firm or organization. They rank many companies, and their measurements are broken down into a number of parts including carbon footprint and supply chain. As a result, researchers such as Derwall and Koedjik (2005) have used the SIF rating as an accurate determination of CSR performance. Also, Brammer, Brooks, and Pavelin (2009), used the SIF rating as one of their determining measures of CSR. Researchers are (with the permission of SIF) permitted to use SIF's proprietary CSR measuring scale, which makes new prospects and advantages available for researchers. SIF has also been found to have a Cronbach's Alpha of over .83, indicating that it is a valid scale for research (Brammer et al., 2009); in addition, SIF's dimensions are not significantly multicollinear, once again underlining the suitability of this scale for research.

There is a plethora of evidence shown in the Meta Analysis of 90 studies conducted by Margolis et. al. (2007), that strongly indicates within all of their conclusions, that socially responsible companies that were ranked highly by the SIF, KLD, EIRIS, or any other independent index of CSR, have better FP, even when defined

as ROA, ROE, ROS, MVA, EVA, mutual fund performance, or stock price in the long run. The operationalization of FP has many advantages and disadvantages, some of which are discussed in greater detail, within the methodology section.

An important evidence-based technique for informing people about industries and the differences between them is through testing out cross-industry dissimilarities in the connection between CSR and FP (Rao & Hamilton, 1996). For instance, if R^2 comes out low in a regression analysis where a bank's performance is the IV and EVA is the DV in the SIF ranking, one can determine that socially responsible behavior does not have an impact or a prediction on FP; at least not for banks. R^2 values across different industries can also be compared to determine which industries have a stronger CSR-FP link. A ranking of the 6 coefficients of the varying industries can then be done to understand which businesses require more control effects on the correlation linking CSR and FP.

The collected works evaluation comprises the main inquiry that has been posed by many researchers in this field (Dunn & Sainty, 2009; Hillman & Klein, 2001; Konar & Cohen, 2001; Scholtens, 2008; and Zhang & Rezaee, 2009) which is whether CSR is beneficial from a financial perspective. Is it important for a company to implement CSR with the expectation of significant financial results? This is a very important question. The answer is even more important because it reveals whether companies are more apt to adopting CSR based on reasoned self-interest. Responsible corporate behavior does have some extensive FP benefits according to a meta-analysis done by Margolis et al. (2007). A lack of information on companies, and whether certain industries have more motivation than others to enhance their CSR presentation has made it difficult to compare

responsible and irresponsible companies, even when not considering the industry,

because research nowadays is based on big datasets.

Problem Statement and Justification

The problem is how companies are differently affected by the CSR and FP

relationship. It is unknown, the differences that are distinguished based on specific

industry dynamics. To explain further, it is not known whether unethical or illegal social

behavior (for example, implemented as low performance on the SIF scale, which is

scored continuously from 1 to 100 and in which lower numeric scores reflect lower CSR

performance) in banks results in a decreased FP than it would in an industry that

manufactures cars. The literature contains many gaps, which additionally describes the

problem. No one study has been done by researchers to link CSR and FP based on

categorizing industries, despite the vast amounts of existing literature on the CSR-FP

link. This is justification for the research. A regression analysis is usually performed by

researchers with anywhere from 100 to 1,000 companies. Then the final R^2 and ɓ

coefficient values are reported. This does not typically include an explanation of whether

the numbers are varied for different industries (*cf.* Allouche & Laroche, 2005; Barnett &

Salomon, 2006; Becchetti & Salomon, 2006; Brammer et al., 2008; Brammer &

Millington, 2008). The use of industry sector itself as an IV has not been employed by

these researchers, however, the basic method is an accurate one, and has been used by

researchers in similar circumstances. The inspection of environmental performance was

done on an industry by industry basis by both researchers Konar and Cohen (2001). In

addition, the approach is further justified through theory because Gallagher and Andrew

(2009) argued that each industry responds to market conditions in their own ways. The

market has different expectations for different kinds of companies, specifically in regards to social responsibility according to Orlitzky (2005). As a result, treating industries themselves as an IV to examine the CSR-FP link has both theoretical and empirical explanations.

Brief Review of Literature

Once CSR is used as the IV and EVA as the DV, the R^2 of the linear regression results are among the collection of .140 and .350 according to what studies have shown (*cf.* Barnett & Salomon, 2006; Brammer & Millington, 2008). It can be expected to find an R^2 in this range, but, because existing literature with a linear regression in which the type of industry was also a variable were not located; the prediction cannot be made about what the 6 coefficients of the different industries will be and how much they add to the R^2 of the model. In table 1, an overview of study findings can be seen that used EVA as the DV in regression analyses of the link between CSR and FP. Different samples were taken and different computations of both CSR and EVA were done. As a result, the results of these studies vary. In addition, these results actually prove that EVA is a variable that is very intricate and difficult to calculate. . Hillman and Klein (2001) and Konar and Cohen (2001) found that responsibility was a major ($p < .05$) predictor of EVA, Scholtens' (2008) results were uncertain, Dunn and Sainty (2009) and Zhang and Rezaee (2009) found that responsible behavior was not a significant predictor ($p < .05$) of EVA.

Many studies have been done to determine the relationship between CSR and financial performance. Appendix A contains an even overview of some of the greatest significant and relevant studies that have discussed the CSR-FP link. Various methods

and concepts used within these studies are listed in Appendix A. Note, that there is one recurring theme throughout these studies, which is the timeframe that is allocated. A meta-analysis of 130 studies was conducted by Allouche and Laroche (2005), where they explained that the link between responsibility and performance was only proven in the long term implementation of CSR, if at all. Czarnowski (2009) claims that there are no instantaneous connections between CSR and FP. The connection is long term because it takes time to implement and build responsibility within all aspects of the business. According to Hillman and Klein (2001), it takes time for investors to recognize the actions of CSR, and it takes time to be noticed and rewarded by consumers. There are a lot of responsible companies in the marketplace, as Konar and Cohen (2001) explained. The environment for competitiveness can make it very hard for an organizations effort's to get noticed. Companies have to work harder and longer to get their names out there, and become reputable as a socially responsible company. Responsibility, according to Gallagher and Andrew (2009), is a competitive differentiator, and companies must account for their delay in the CSR-FP relationship, as seen by Allouche and Laroche (2005). Moreover, not all studies had similar findings. For example, responsibility was a signigicant predictor of EVA according to a studies done by Hillman and Klein (2001) and Konar and Cohen (2001), which focused directly on EVA. However, Zhang and Rezaee (2007) and Dunn and Sainty (2009) concluded based on their findings, that CSR was not a major predictor of EVA. . Becchetti and Ciciretti (2009) used Market Value Added (MVA) and also found that CSR did not have a major impact on MVA. The findings were all different because the researchers did not use the same methods to calculate both responsibility and EVA.

Culture is also a subject discussed in many studies. Consumers and investors in developing countries are not concerned, nor do they reward companies that are responsible as shown in a study conducted by Zhang and Rezaee (2009). However, Van Beurden and Gossling (2008) did a Meta analysis that discovered conscientious and responsible companies demand a brand and a stock premium, mainly in North America and Western Europe. Well developed and industrialized countries have advanced civilization, regulations, and business methods that create equilibrium with responsibility and performance. However, Barnett and Salomon (2006) believe that markets in developing countries focus more on growth even if it jeopardizes responsibility and this is the reason for the pattern that is happening.

Additional analyses were needed for certain correlations between CSR and FP, which helped confirm the link. For instance, Frooman (1997) and Orlitzky (2005) rationalized that the procedures needed in order to be responsible were very similar the procedures needed to help reduce expenses. These long term costs incorporated the expenses of litigation, inventory, disposal of waste, and brand management. Stock prices are improved when these actions are implemented. This also reassures that the stock market companies are economically and socially conscientious (Brammer et al., 2009; Brammer & Millington, 2008; Rao & Hamilton, 1996). The correlation between CSR , FP, and market recognition can be explained as a unified theory according to Maron (2006), of the CSR-FP link. The CSR-FP link operates the way it does because as suggested by Ruf, Muralidhar, Brown, Janney, and Paul (2001) it takes full advantage of profits and eases risks to every shareholder.

Research Question and Hypothesis

The research question: Examining four general business segments, namely, manufacturing, financial services, retail, and energy, is there a stronger link between CSR and FP for any specific segment? Personal interest and also the size of each industry being big enough according to the annual sales volume, mitigates the research, and is the reason that these four industry segments were selected.

Hypothesis

The null and alternate hypotheses to be tested are the following:

○ H_0: The CSR-FP relationship is the same for all sectors.

   H_1: At least one sector for which the CSR-FP relationship is different exists

Explanation and Justification of Methods

It is important to select the right tools and methodologies for determining an IV's prognostic influence over a DV. The correct tool for these analyses is a regression. The instrument to be used, namely, linear regression analysis, is involved in greater than 30 studies all dating after 2004, which measure the link between CSR and FP. A regression is also the right tool to use when trying to verify an IV's ability to clarify dissimilarities in the DV when the IV is a continuous variable, as is EVA. Regression shows the constant and 6 coefficients that are required, so that it is possible to apply the equation foretelling the influence a particular value of the IV could have directly on the DV.

A number of areas have been discussed: the problem motivating the research, the research question to be answered, the hypothesis to be tested, the variables and construct to be applied in order to test the hypothesis, the type of methodology to be used, the selection of operational variables as justified by the theory, the sampling justifications,

the data collecting process, and the strategy used for the data analysis. . In the literature review, an attempt is made to become more familiar with similar, previously published research and discuss the results for their relevance and potential impact on the results expected for the proposed study.

CHAPTER TWO: LITERATURE REVIEW

The literature review is divided into several sections. First, literature about corporate social responsibility (hereafter abbreviated as CSR) will be reviewed. Second, previous studies in which the CSR-FP are linked will be reviewed. This review will include an examination of why varying studies on the same topic of responsibility and performance conclude with different results. Third FP metrics such as EVA will be discussed. Finally, agency theory and game theory will be analyzed, because they are relevant to understanding the link between financial performance and socially responsible behavior.

Overview of Corporate Social Responsibility (CSR)

CSR is a major concept and operational variable for this study. As a result, it will be discussed in great detail. Various interpretations of CSR exist. From a traditional perspective, Steiner (2005) more or less explains that a socially responsible enterprise is one that maximizes their profits, while at the same time following the rules and law. He also said that an "invisible hand" will do the job of balancing and controlling economic activity, which will be beneficial to all in the end so there is no reason to invest significant amounts of time and money into developing a socially sound reputation. This statement does a good job of explaining the traditional view that the duties of CSR do not actually go beyond the maximization of profit for certified stakeholders and investors. On the other hand however, modern views, such as Hopkins (2003) see CSR as a "planetary bargain" where he argues that the environment and earth is a stakeholder, and it is important to take care of the global environment, which will not only be socially responsible, but will also be the way that industries can help save the earth. The literature

on these two perspectives does not decipher or determine the accepted understanding or standpoint of CSR that is perceived today.

CSR has become a major part of business operations within the last decade, however, the notion of CSR is part of history, as far back to at least Aristotle (1972) where he claims that it is important to keep property private, but the use of it shared, and that it is the responsibility of the lawmakers to be compassionate, and kind of economics, but it also contains the beginnings of CSR. First, CSR takes an ethical and moral standpoint. It dictates how industries should behave, it is not a suggestion of how to be responsible. CSR is something that must be made obligatory, not an option. CSR is something that must be enforced within industries because it is not something that a manager or industry would automatically or usually do. Second, CSR is an ethical perspective, an argument that some circumstances and situations enable more than others.

Many years ago, theorists believed that economics was the continuation of moral behavior for business guidance. Many books, for example, "The Gospel of Stewardship" by Thomas Aquinas (1259/1916) was written, to extend moral behavior based on religion. This book developed a Christian description of CSR, reminding or teaching readers that God is the one who controls and puts limits on earning disparities, and those who go beyond those limits to try to gain more or keep more wealth are committing a sin. Directly quoted from Aquinas, "Sin consists in…trying to acquire or retain riches beyond this limit" (p. 31).

It is important to discuss the history of CSR to prove that CSR actually means to be an honest and trustworthy enterprise, and is not simply another way to maximize profit or do business as many advocators of CSR have declared. Perspectives have changed,

however, and continue to evolve. Currently, some economists believe according to Zelizer (2005), that the blending of business operations and social connections are just another way to do commerce. In other words, what used to be interpreted at ethical is now another way to do business because of what is now referred to as the Adam Smith enthused trivial uprising in economics.

Classical economics was based on high-living, quality, and reasonableness according to Yonay (1998). Classical economic traditions involved lenient government policies and lack of government involvement in order to maintain a high style of living. Evolution of CSR started changing in the 90's.

Corporate Control, Corporate Social Responsibility, and Trade

According to Gudeman (2001), pure trade does not offer additional financial benefit. It is common sense to say that business is about making money and maximizing profit while mitigating the circumstances of taking in a profit. The fundamental theory of profit according to Paul and Miller (1998) is that a personal profit must be generated at the cost of others. In other words, only one party can profit from a transaction between another, even if the other group was led to believe that they profited as well. The same goes for a business owner that is very successful, it is believed, according to Paul and Miller (1998) that this is merely a success at taking advantage of others.

The potency of this assumption is the basis on which capitalism operates. In fact, capitalism demands even more by requesting the delivery of speedy earnings. Companies that do not meet quarterly targets according to Romano (2001) are punished by financial markets and shareholder protests. This makes it very difficult for a company to focus on being ethically sound and responsible, when the survival of the company depends on

meeting quarterly goals, or risk being publicly humiliated. Bloomgarden (2007) summarized that it is relatively clear, that the best way for a CEO to keep a job, is to be sure that the company or division makes the quarterly earning goals. CEO's are forced to center their attention on the short term profits so that they can maintain not only their status, but their job's at a company. According to Alarie (2003), In doing so, they drive up the worth of their stock options and are pressured to focus on short term because of self interest and economic market pressures. CEO's according to Alarie (2003), have no reason or deterrent from maintaining a short term operational focus because regulations and penalties are slim. There are many examples of companies that operated on a short term basis, and avoided legal troubles by paying a small price. Two companies for example, as Glassbeek (2002) brought to light, Exxon and Hoffman- La Roche were able to pay their way out of legal troubles.

Diligent planning will be needed for the future of social and environmental responsibility if the core purpose of Corporate Governance is to provide short-term profits. This most likely cannot be done without a direct impact on current and or short term profits. How can actual circumstances of what seem to be long term CSR, as deliberated and employed by corporate governance be explained then? It is not possible to examine each detail case by case; however a classic example of how what seems to be CSR is really not can be seen in the forestry company Collins Pine. It also portrays an example of how corporate government is more concerned with the maximization of profits and their bottom line than they are with being socially and environmentally responsible.

Collins Pine declared their goals of developing a sustainable reproduction in the structure of Almanor Forest in 1943. In the United States forestry industry a flourishing number of sustainable projects were underway, and this project was part of it. The Forest Stewardship Council was signed up by Collins. The FSC, an environmental organization, that essentially consists primarily of logging company executives who approved the logging procedures in Almanor. However, even though Almanor was supervised all of these years, they were a lot bigger in 1990 than they were in 1943. Almanor is highly regarded for their combination of environmental protection, values, and traditional business practices by business theorists like Nattrass and Altomore (1999) who believe that the company is a perfect example of CSR.

Upon further examination, it was discovered that Almanor is not an environmental model for the industry after all. It is not even characteristically close to the Collins Pine's business; instead, it is a distribution supply chain quality proposal. According to an explanation provided by Jenkins and Smith (1999), the Collins's forest management practices at Almanor supply the company with better quality raw materials than they were able to buy through the open market. Huge quantities of raw materials are purchased, despite the model saying that only a percentage of the hauls have to be a better quality. It would not be a profitable decision if forests were taken care of the way Almanor takes care of them, and as a result, there has been no attempt made to broaden or expand these environmentally sound and sustainable practices around the country by any other American forestry company including Collins.

The argument of Jenkins and Smith (1999) is proven by studies conducted by Butler (2006), who confirmed that the American forests and woodland habitat decreased

by 0.8% from 1990 to 2005, even though sustainable logging for almost two decades was done. The transparency of this evidence is astounding, and proves that sustainable logging was a cover up intended to make prices higher for some products, especially the products that had the seal of approval from the FSC. In addition, a much needed mix of better quality wood was provided and combined into the supply mix of the larger logging industries. The bottom line is the most important component in this industry. Tens of thousands of American forest acres, which can not be replaced, are lost every year.

Another example that is similar to the Collins Pine scenario, is the fair trade coffee scheme, where coffee is sold for double the price of other coffee, which brings in profit for coffee companies, while costing consumers in North America more money. In other words, the consumers are given the extra costs, and buy the product at a loss, while the coffee industries make a profit. Also, not typically mentioned, are the corporate profit transactions, where corporations may pay $10 dollars to a fair trade supplier from Guatemala for example, but then the consumer is charged $20, so the money is taken back, and at a profit.

CSR means fairness and responsibility to every stakeholder. Many businesses and corporations infringe on these principles. As a result, they cannot be considered a socially responsible enterprise. There are many issues with the general understanding of CSR that circulates within business news. Capitalism, according to Paul and Miller (1998) allows many serious and unfair practices to occur through its loopholes, which is a dilemma that never seems to be acknowledged.

It is very difficult to discuss the subject of CSR, when a corporation takes advantage of someone regardless of it being 1 time instead of 3 times. For instance, the

Gap, when doing business with Bangladeshi suppliers went from compensating workers at an hourly wage of $.01 an hour to an hourly wage of $.02. There was no significant difference or changes made for these hard working individuals. It was not a change that was worth calling socially responsible. Opposing views may demand that all sweatshops in North and Latin America be shut down, and then these companies will be rewarded for considering the concerns and opinions of consumers and taking action to make things better. These companies could include Disney, Wal-Mart, and the Gap. The global expansion of these companies, and other companies, in multiple locations, including developing nations are not always easy to find or investigate. As Klein (2003) mentioned that many of these places like Vietnam, Bangladesh, and China, are known for having governments that work together with abusive and unfair corporations, and so many of these factories are purposely hidden so that they do not become a target or challenge.

Consequently, when businesses publicly disclose information about their CSR practices they may not be announcing the business operations and activities that they may do in other places in the world, but just where it seems to matter the most, and where their reputations with stakeholders and investors are crucial for profit maximization. Rhetoric may include terms such as visible supply chains, onshore and near shore industries, or even handpicked suppliers. Phantom sweatshops zones do exist according to Klein (2003), who states that these sweatshop zones are happening more frequently and in countries that are isolated from the Western world. Many details about the company operations and practices such as hiring children to do labor or allowing workers to work in dangerous and unsafe conditions, can be concealed in a variety of ways from the West.

Profit making can be coined with an idea by Agnew, Mitchell, and Toal (2003), that there is a connection between mistreatment "there" and proceeds "here". A union at a local factory can be denied legality, or works together with the managers, or a store where consumers take the bait of propaganda and buy products they do not need, and at a high cost to the consumer can be considered "there". "There" can also mean a sweatshop or a plantation for coffee. "Here" typically means the same thing all the time, a corporate meeting room. Free trade does not result in great prices or profit for the consumer as it does when compared to the profits that large companies make. Michael Eisner, the CEO of Disney in the 90's, a time when sweatshops were rampant and widely unknown, received $130 million dollars as part of a severance agreement from the company (Gevrurtz, 2007).

The Outlook for Governance and Responsibility

In order to make a link between two things, the other component must be present. This literature review argues that CSR, from an economic standpoint views society as a shareholder in business and that CSR is only an illusion. In other words, it does not exist. (Klein, 2003; Bollen & Cohen, 2004; Bauer & Otten, 2005) claim that CSR is only a tactic used in marketing to increase profits, expand risks, and is a disguise to divert attention away from the despicable sweatshops and supply chains.

Capitalism does exist and is a very successful mechanism according to Paul and Miller (1998), which proves that a lot of people all over the world in every nation have been victimized, and that people victimize others. To assume the same people who invented sweatshop labor, useless bonds with high yields, industrial logging, and the agreements made between upper executives where a huge severance pay is given in place

of their jobs, would now be considerate of the environment and social responsibility, is according to (Klein, 2003; Barnett &

Salomon, 2006; Brammer et al., 2006) to say the least inexperienced. Capitalists will take any chance and opportunity to take full advantage of the needs and impulses of consumers and advocators. Capitalists however, according to Porrit (2008) will not take the basic systems of unfairness apart, so it can be expected to continue living with crushing unions, labor shops, and possibly even the overtaking of self governed countries when and if it is in the best interest of strong and big corporations.

At the beginning of this chapter, the concession was made that CSR exists on a continuum; it is not an on/off switch. That fact that fairness has not been attained on an ongoing basis does not mean that it will never be achieved. It is important to continue fighting for increased fairness, and for those with strong moral and ethical principles, it is important to encourage and support the need for companies to operate with equal values. As a result, there are a few recommendations that are needed. They are simple recommendations that have the potential to yield significant results for the evolution of CSR. One of these recommendations would be to build a uniform code for corporate governance. For example, say there was a company that has a global supply chain and it deals with its employees much differently in Canada than they do in China. North American corporations could make an effort to help suppliers come up with ways to improve their labor practices and increase equality, treatment, and rights of workers (Arnold, 2003). As Arnold (2003) mentioned, it is important to have a realistic expectation, and not expect big companies to cooperate in the development of labor markets where their financial gain, or competitive advantage would be lost. It is still

important that corporations make an effort to enhance their positions with CSR on a global level. The cost of production overseas, and in developing nations is usually much less than the cost of production in the United States. Since they are not as advanced, new business processes could be implemented with the help of capital expenditures, to assist and increase the productivity levels of workers in a local region. In return, these workers can be paid more, without impacting the corporations profit margins. Another idea, can include the increasing of compensation to workers so that they can make better quality products.

The Relationship between Responsibility and Performance

This review provides the foundational support of the literature review. This section provides studies that are directly connected to the projected study, are peer reviewed, and they are justified. The examination is segmented into two parts. The first part of the discussion examines the manager's role, the person who has the greatest responsibility if the company intends on maximizing FP, and the second part is an examination of the general literature that exists and discusses the CSR-FP link.

The existing studies and literature on managers is put into its own segment because it is a major part of the literature, and is also an objection to the claims of certain research studies including Porritt (2008), and others who feel that it is important for all corporations to operate in a responsible manner with all shareholders, consumers, and investors regardless of size, to determine long term performance. The literature on a management's responsibility claims that a manager and owners position is the most important stakeholder and investor for the organization and it is impractical for any type

of CSR to ignore the importance and impact that the manager/owner role has on an organization. (Bollen & Cohen, 2004; Klein, 2003; Paul & Miller, 1998).

The Role of Managers

A newfound interest in how the manager and/or owner role impacted the organization occurred in the 90's, with a great deal of literature focusing on the U.S. The main connection between CSR and FP was through the manager. The manager, according to Halpern (1997), not shareholders, employees, or community members was the only person who had to be responsible to maximize FP. *Investor's Business Daily* (1996) and Lieberman (1995) paid close attention to the managers responsibility in U.S. corporations.

Developing a theory of behavior is the most crucial part of a theorists examination of management ownership and a firms value. Managers who are also owners tend to conduct themselves differently then managers who do not have ownership in the business. *Investor's Business Daily* (1996), believe that the manager who is also the owner has a main focus to maximize profit. This research also looks into why the manager who is only a caretaker, differs from the manager who is also the owner.

Various approaches have been taken to identify the differences. The manager, who is not an owner, is more concerned with keeping his job, and reputation. According to Amihud and Lev (1981) and McEachern (1975), if job security is more important than the mentality and thought of a manager of a company, it takes on a new perspective and is about highs and lows. According to Amihud and Lev (1981) and McEachern (1975) (and, in a more recent study, by Hill, Ainscough, Shank, & Manullang, 2007) by rejecting to formulate strategic decisions that have the potential to be high risk or high reward, a

manager that is solely and without ownership, tends to work towards getting rid of highs and lows in FP and prefers uniformity and predictability. A manager feels more secure when risk is decreased, because they have a constant fear of losing their position based on bad performance or results that they were directly a part of (Hill et al., 2007; Luo & Bhattacharya, 2006; Mengun & Ozanne, 2005).

It is complicated to describe the reasons certain managers make high risk decisions that could potentially lead to great reward or great disaster, and a better firm worth. Numerous instruments have been proposed by theorists. When a decision is made by fewer people, specifically decisions focused on stocks, a positive relationship with the concentration of research and advancements are evident according to Hill and Snell (1988). In cases like this one, stockholders may be pressuring management to get more involved in high risk decisions and activities and strategies that involve the enhancement of research and development.

Some research studies suggest that there is empirical proof supporting the fact that people who own stock, particularly a lot of stocks, tend to make decisions and choices that they think will help drive the prices of their stock up. A very important study was conducted by Hill and Snell (1988), and they discussed this very topic. A lot of shareholders and investors do not have an incentive or reason to increase or balance the stocks (For example, the stocks remain constant in value, or unchanged) but are more pressured to make profit (For example, the stock values increase, even though the behaviors and measures taken in order to accomplish the results are risky).

The sovereign nature of major external shareholders plays a part in the breakup of decision making and decision control, a decline in agency expenses, and a lesser amount

of decision-making and risk-reducing behavior associated with management decisions, according to Gamble (2000) who provided a new theory which was constructed from the foundations of Hill and Snell's (1988) research. When large self-governing shareholders decrease in size, both decision making and control become intertwined, and the establishment of a sound management system is more likely.

Many changes were made to the existing research studies, and a creation of a theory that was more extensive in explaining establishment and configuration of both the game theory and organizational theory was done by Gamble (2000). This theory provided additional impressions to the examination of management proprietorship and firm worth. One of the main differences made to this theory that Gamble (2000) created discrepancies among choice creation and governor. The purpose of Gamble's disagreement was that choice regulator and a natural strategy for decreasing risks, but, decision making was a better combination for risk, so long as the risk entailed a reward as a result. These differences were argued by Gamble, who believed that from the perspective of stock ownership, decision makers paid a bigger price for risky decisions and behaviors then did managers who were responsible for decision making.

Decision makers and decision managers involve two conflicting strategies that both Hill and Snell (1988) originally verified, however, applied to Gamble's (2000) theory. A decision manager aims for balance because the risks can far outweigh the benefits, and there is not much to gain by becoming involved with higher risk activities that are needed for big returns. For example, becoming involved with a merger, involves the investment of a lot of money into R and D. The decision maker does not prefer stability because a stock could have been purchased at a certain price and they have a

reason to make sure and try to do whatever they can to see that the stock goes up in value, instead of unchanged or going down.

The difference in the behavior of the decision maker and decision manager can be understood without the game theory. Having stock proves that a stockholder wants to profit and make money, but if stability was all that was being sought, the money could very well have been put into a risk free mechanism like a savings account or CD, also known as certificate of deposit instead of in the stock market. However it is easy to comprehend the relationship between stability and balance that the manager who is simply a caretaker, not owner, has in terms of decision making and wanting to avoid risky activity, because they do not have the same potential to profit from actions that are very risky, but are necessary to earn big rewards.

Comprehending Financial Ratios

One of the main ideas and active variables in this study is a financial ratio. It is important to study financial ratios because EVA, which is used in this study, is a financial ratio. Researching the foundations of financial ratios is important because it provides instructions for using EVA. There are five ratios that are commonly used according to (Maron, 2006).

First, leverage ratios are ratios that include the utilization of debt within a company's main structure, and this includes the debt-equity ratio, debt-assets ratio, interest coverage ratio, and fixed charges coverage ratio. Second, liquidity ratios are those that consider a company's short term financial standing. Current ration, acid- test ratio, and fund flow ratio are crucial ratios in this respect. Third, operating ratios include inventory turnover, accounts receivable turnover, fixed assets turnover ratio, total assets

turnover ratio, and additional ratios that describe the operational efficiency of an

organization. Fourth, profitability ratios, which include the gross profit margin ratio, net

profit margin ratio, return on investment, return on equity, and other ratios that describe

profitability. Fifth, and lastly, are solvency ratios, which are the measurements that

describe and explain a company's probabilities of staying in business or going bankrupt.

For example, cash flow versus financial responsibilities.

There are a lot of financial ratios that have been implemented for many years that

are used for the evaluation of a company's financial standing. Recently, newer ratios

have been developed to provide a shortcut through the confusion of analysis, and which

also provides a more accurate evaluation of where a company stands in terms of financial

stability. Economic Value Added (EVA) and Market Value Added (MVA) were

discussed by Gallagher and Andrew (2009). MVA was describes as the market value of

invested capital, minus book value of invested capital, while EVA is EBIT (1-TR) -

(Invested capital multiplied by investors required rate of return on their investment).

When EVA is positive over time, and MVA is considerably above 1 over time, this is a

sign, that a company is taking in strong financial returns for investors and is adding value

to the market.

EVA and MVA are ratios that assess the financial success of a company in terms

of maximizing shareholder profits and returns and determine how efficient management

is. This argument is made at least for public companies (Brigham & Ehrhardt 2008, pp.

103-104). In addition, EVA is an approximation of a business's honest economic yearly

earnings, which is the income that they have after all costs including equity capital has

been withheld. EVA is not a percentage, according to Brigham and Ehrhardt, rather, it is

a dollar figure, and it is the left over income after exclusion of capital costs. EVA and MVA more or less complete the work of weighting different ratios and they provide the researcher with a prepared assessment of a company's financial standing that far exceeds the traditional metrics. EVA and MVA however, should not substitute traditional methods of analysis, but should complement them. Results can differ significantly depending on the aims of the researcher. A researcher that is looking to see whether a company can stay profitable in the short term may not be as focused on the P/E ratios than they are in the effect of debt on the capital organization. From a different perspective, a researcher that is examining the long term value of a company may focus on prioritizing EVA, MVA, P/E, and ratios that may be related. As a result, a single approach will not be effective in incrementing financial metrics. It is important for the analyst to comprehend the subject matter and the goals of the analysis in order to weight ratios correctly.

It is the responsibility of the researcher to decide which weights to use for their study, and according to Zopounidis (2002), if the researcher makes the decision to consider a specific ratio to be more important than others, then the weight coefficient of this ratio will be greater than the other ratios, and the same goes for the others. There is not a shortcut in figuring out how to calculate or weight ratios because the factors that go into each weighting decision are not the same. It is questionable whether there are best practices for selecting weights, even if there are no shortcuts in the process of making a decision.

There is a great deal of existing literature which focuses on quantitative business methods, and are very helpful for the determination of how to weight. A presentation of

an algorithm for weighting that calculates payoff instead of risk within every category

that is weighted was presented by Sweeney, Anderson, Williams, Camm, and Martin

(2009), where they developed a recognized way for figuring out the costs and benefits of

being correct or incorrect, which researchers could use to apply to their own existing

weighting models.

The following EVA formula was given by Grant (2003):

$$EVA = (r\text{-}c) * K = NOPAT\text{-}c * K$$

The terminology used in the formula are explained as followed: c is the Weighted

Average Costs of Capital (WACC), K is the Employed Capital, NOPAT is the Net

Operating Profit After Tax, and the ROIC is the Return On Invested Capital which is

NOPAT/K. In other words, the EVA formula can be simplified and computed as follows:

$$EVA = NOPAT - capital\ charge$$

In this equation, capital charge can be determined by multiplying Invested Capital

by WACC. EVA, as previously mentioned is not a percentage, it is a dollar figure. EVA

deducts one dollar figure which is the Cost of Capital from another, which is Net

Operating Profit after Taxes.

EVA provides an overview of the amount of profit that is generated in a specific

time period. Stern (1999) explained the importance of EVA, and Saverese (1999) called

the exact same idea Economic Profit, prior to the acceptance of EVA. EVA sounds

similar to Net Present Value (NPV), however, there are significant differences. EVA, as

described by Grant (2003), has an advantage based on the differences in changes that

EVA computations make with invested capital, profit and loss.

EVA has been operationalized as the operational variable for FP, in various studies including studies conducted by Hillman and Klein (2001), Scholtens (2008), Zhang and Rezaee (2009), Konar and Cohen (2001), and Dunn and Sainty (2009). Each study had varying results, in part because the samples were different, and the calculations were also different for both EVA and CSR. The section following will show the multifaceted and complexity of calculating EVA. Studies completed by Hillman and Klein (2001) and Konar and Cohen (2001) determined that responsibility is an important ($p < .05$) forecaster of EVA, however, the results found in the study conducted by Scholten (2008) were not determined, and another study done by Dunn, Sainty, Zhang and Rezaee (2009) found that responsible behavior is not a major predictor ($p<.05$) of EVA.

The calculation of EVA is very complex. Firstly, instead of using the Accrual Based Operating Profit known as EBIT, the calculation requires the number for NOPAT, which is calculated with the subtraction of expenses from sales, and results in the number of EBIT. The results of EVA deduct tax and interest expenses from EBIT. Using this method helps reduce misrepresentations that the traditional accounting methods have in the calculation and acknowledgement of cash flows, which according to Holler (2009) creates a more transparent and accurate representation. When interest and tax expenses are deducted from EBIT, the results portray the net earnings. Expenses are capitalized, according to Chew and Gillan (2005), which typically includes reclassifying some of the expenditures as investments. When the results of NOPAT are obtained through the use of this method, additional changes have to be made to calculate the final EVA figure, which will be displayed in a dollar figure rather than a percentage. As mentioned, EVA involves

many complicated calculations. The purpose of this section is to provide a clearer explanation of the basic concept of EVA, rather than a detailed discussion.

Tobin's Q is a well-known creation of metric value that in detail was developed and discussed by Tobin and Brainard (1969), who explained Tobin's Q as a ratio that is very important and useful for macroeconomics because it provides an explanation of the connections between financial markets and markets for products and services. The numerator includes the market valuation, which is the profitable or current price in the market for trading assets that exist. The denominator includes the replacement, commonly called the reproduction cost, which is the market cost for newly made supplies.

Literature has referred to Tobin's Q in a broad sense. The following study includes limitations that Tobin's Q has, which, ultimately confirmed that it is not a credible variable to use in research. Obtaining the market price for an asset is increasingly difficult for time sensitive models that require the use of past or historical prices. It can be easy to find the profitable market prices for a good or service in 2011, but may not be so easy to find, for 1999. It is even more difficult without a reliable database which incorporates Tobin's Q on a historical basis. EVA and MVA are calculated much easier than Tobin's Q because financial values are easily obtainable from the Securities and Exchange Commission (SEC) filings, and because third-party databases such as Morningstar provide a directory for these types of metrics, which eliminates the tedious process of searching for reliable data and their calculations. Another disadvantage of using Tobin's Q is that it is also an increasing challenge to acquire reproduction costs, as this information is time sensitive, and becomes an even

greater challenge when examining over 100 companies and 40 quarters of information and data.

Tobin's Q is not the sole measurement tool of interest, as verified by the dialogue of EVA and MVA. In addition, there is supporting evidence that exists for EVA and MVA. Data for EVA and MVA are more easily acquired then data for the Tobin's Q instrument, which justifies, the use and incorporation of EVA and MVA as a credible instrument.

Agency Theory

A general overview of issues related to CSR, FP, and management were discussed in the literature review section. This overview was important, in order to provide a foundation to discuss further, a more detailed examination of studies, which relate to the Agency Theory. Agency Theory plays an important role in the review of literature because it aids in the explanation of the possible influence that important decision makers, like CEO's have on making decisions that involve CSR and FP; the two main ideas and operational variables in the research.

The presence of this topic is justified by the subject matter in the study. The characteristics of the discussion may appear broad in nature; however, it is crucial for the purpose of meticulousness to support the theories with important historical ideas about administrative and financial governance.

Agency Theory describes a common belief between scholars that industries function as a conventional contract between different shareholders, in the broad sense of management and business. Suggestions about the relationships and findings were discussed in the previous section which discussed the responsibilities of management.

Agency Theory is very intricate and big, needs a great deal of time, and would have to be

handled on its own. This literature review section will focus on the different types of

Agency Theory, and the scientific assumptions related to Agency Theory.

This literature review segment is separated into different parts. First, there will be

a review and analysis of a presentation of the Agency Theory from a broad perspective in

order to explain the theory in basic terms. Next, in order to understand how the

hypotheses are related to Agency Theory, there will be an investigation of different

theories, including financial incentives, collaboration, and the growth of value

hypothesis, investor concerns, and the adaptive and normal expectation theory

hypothesis.

The Agency Theory dates far back into history. There are many areas that the

discussion could start, however, it is complicated to determine the right place to begin,

because the contractarian philosophy, which inspired the Agency Theory has been argued

since the 17th century, however, during the 1970's many businesses incorporated the

contractarian theory directly to business, which was very popular in the 70's. Both the

viewpoint and the application of the Agency Theory cannot be comprehended

independently (Steiner, 2005; Zhang & Rezaee, 2009). As a result, it may be in the best

interest of the study to discuss Contemporary Agency Theory, by examining the history

of the contractarian philosophy.

Hobbes (1904), Locke (1821), and Smith (1801), were the individuals largely

known for their political and philosophical work, and who were primarily connected to

the contractarian theory and its development. Their works are supportive of the Agency

Theory as a distinctive organization of beliefs. Agency Theory would not be understood

or confirmed as a credible theory, without the works of Smith. This is because Agency

Theory is an extension of historical economics intertwined with a more modern

perspective for his time, with which Smith's work *The Wealth of Nations* was founded.

Additional dialogue is required in respects to each philosopher, in order to move on to a

discussion of the role of Agency Theory, how it works today, and how many hypotheses

are intertwined within this theory. Smith had the most involvement in the development of

the Agency Theory; therefore, a greater focus will be placed on his work. The

relationship between Agency Theory and Game Theory are closely linked in many

aspects, and therefore they will be compared.

Hobbes and Locke

Hobbes (1904) is commonly known and referred to as the founder of the social

contract and is well known for his important role in the development of the political

theory Leviathan, despite Locke (1821) having an influential role in the creation of the

theory as well. The social contract theory refers to the belief and understanding that in

any governed system, the existence of some form of joint accommodation between the

people, and the state must occur. Agency Theory when applied to business, replaced the

actors, when the responsibilities of the state were taken over by business.

There are only two plausible political situations that exist according to Hobbes

(1904); the state of nature and how we behave in our natural environment, and the state

of evolution, where people gradually move away from nature, and towards civilization,

which they perceive to be safer, and providing more protection. The right of nature

according to Hobbes (1904), meant that people have the freedom to do what they want,

and take what they want, regardless of the harm it could do to others. Like animals

protecting territory, and in own self-interest, doing what was needed to survive. Hobbes was concerned about this state of nature, because it meant to him, a worsening situation of mayhem, and further from control. There are consequences for absolute freedom, which quite possibly is absolute violence. Civilization however, helped to create a societal and social contract, where people subconsciously gravitate towards a more civil way of life.

People have subconsciously and knowingly sacrificed many of their freedoms and right, for a perceived safer way of life. They agreed to support a governed society, which during the time of Hobbes was predominantly a monarchial system. Today, this can be applied to big businesses, where certain securities and safeguards are offered.

According to Hobbes, the support of the state comes from its capabilities to protect and defend people from the attacks of powerful people, regardless of if they are citizens or outsiders. Social Contract Theory has changed a lot over the eras, and has become very refined however, it is the same contract that Hobbes (1904) argued was what caused people to give up their freedoms in return for personal protection from attacks. This theory is now applied, especially to the American social contract today, and has extended to encompass the right to the quest for joyfulness. By protecting people, the state has created a domain where people are essentially free from the dread of attacks from others. The system is not perfect; however, it provides a social and economic ground where people can seek a better quality of life than they would have in nature.

Hobbes's (1904) theory was incorporated into a lot of Locke's (1821) work because Locke extended upon his understanding of the social contract theory, discussed the issues of freedom, obligations, and rights. Locke (1821) did not believe in many

undeniable freedoms. He felt that when people are born they have a right to protect them, and the right to do what they need to survive, but other freedoms and rights must be awarded by the state in an agreement with the individual. In advanced Agency Theory these right are negotiated between the individual and enterprise. The majorities of rights are negotiated between the social and political systems and have to be awarded to the individuals, when they agree to follow governing laws.

The freedoms that society provides should not be controlled by any other governing form, but should be agreed upon, based on a collective decision made by the people of the nation. It should not be controlled by a state or domain, according to Hobbes (1904), but the laws that the government make and enforce should be according to the trust that people put into it.

Hobbes (1904) hated the concept of revolting because it conflicted with the purpose of his political beliefs. He felt that rebellion destroyed contracts, and that when people rebelled, it encouraged the regression to a government of disorder and mayhem. Hobbes believed that rebellion only creates a state of regression, instead of making progress toward civilization through the guidance of government, which is why it was contracted in the first place. He felt that activists against the government should not be tolerated. To prove his point, Hobbes argued the theoretical fairness of contracts. When people make an agreement, they each have to do their part and abide by the agreement as part of their contract. The self-governed person does not have any obligation from which to refrain.

This part of Hobbes' theory is no longer relevant to the Agency Theory because an organizations controllers and owners do not have everlasting control, and are filling

positions of management, in which their roles have limitations and rules that they are given by stakeholders and investors. In addition, the decisions that these manager makes, directly impact the overall activities of consumers. The primary difference in Agency Theory today is the development of the notion of voluntary, non-binding contracts that comprise and bring together company managers, investors, consumers, governing authorities, and others into one system of collective agreements, collaboration, and occasionally disagreement.

Adam Smith

Adam Smith (1801) was an 18th century teacher and scholar from Scotland, who made a very important contribution to the study of economics with his writing of *The Wealth of Nations*. Economics evolved a great deal because of this work. His work was influenced by a great deal of economic literature during his time, however, his work was a very important change from anything that had existed prior, for a number of reasons. *The Wealth of Nations* described the way people actually are, concerned with the bottom line, and not the way they should be, moral and ethical. He was realistic in his explanation of how the world really operates. In addition, he presented scientific analysis and systems to provide support to scientific studies and methods that were previously based on philosophical findings and investigations, rather than measurable proof. Smith declared that people were just out to make money, and that people are willing to be deceptive to make more profit, a claim that was commonly blamed on the Jews. He considered this intention to be evil and corrupt. Also, he is responsible for the 19th century marginal revolution because of the work he did. Smith established an economic uprising that can be compared to the great revolution of 1776. Smith's work influenced

many a revolution in the economic world, and can be compared to other influential figures such as Newton, Darwin and Freud, who changed the way the world operates. Adam Smith is an important part of the Agency Theory, and a major part of history.

The scientific revolution of economics started by Smith and later researchers began as an expansion of moral and ethical beliefs. Aristotle (1972) was the man who claimed that it is important to keep propery a private matter, but to share how the property is used, and that it is the duty of the lawmaker, and the governing authorities, to be kind, and considerate of the interests of others. It is human nature to be interested in our own self-worth, and benefits, but its greed that makes people care less about others. For the past 2,500 years, Aristotle's works have influenced the works of others, expanding upon the moral philosophy, and how people should act and conduct themselves. Aristotle's moral belief is focused on how people should be sharing community property, instead of what it is, greed and selfishness.

In order to refrain from the natural impulses of self-gain, it is important to obtain a form of government that can help reduce unethical and immoral conduct, and that will demand that ethical principles are adhered to. Amazingly, the same ideas are revealed more than two eras later, in the works of Marx (1865/1966), where a totalitarian system is in place of the government for the people. If people have chosen not to adhere to economic values, they will be forced to follow it, with what Marx claims will take a very long time, but is also very necessary.

Economic activity involves the collective transactions that are done by people for a common purpose; to make financial profit. People make financial choices for a variety of reasons. Some base their decisions on morals, and others are focused on financial

profit. There is no judgment made towards these two types of decisions, according to the work of Smith (1801), and this is a major difference when compared to the traditional economic belief system. Smith is concerned with the economic choices that people make. He is not focused on what he thinks they should do, or how they should behave and think, and this viewpoint, was the theoretical beginning of Smith's uprising. Smith did agree that some people would be honest and ethical when engaging in financial and economic activities. He argued however, that the market itself did not operate in accord to these principles.

There were, and are many obvious disturbances within economics, that have an impact on the way business is conducted. In other words, moral beliefs can be seen as one of the many interruptions in the purpose of economic activity, which is to make money. A great deal of historical and philosophical literature existed prior to and after the works of Smith (1801), although not as significant as Smith's work. Researchers provided broad, theoretical, and incalculable terminologies for economic claims and ideas for economic subjects on things like expense, worth, and industry. Smith's findings remain a major part of history's political viewpoints, although the scientific methods used during the 18th century offer a glimpse of the economic upheaval to arise. Smith's solid influences in investigative economics are apparent in many ways, for example, his influences on the theory of price. He explained that prices for each and every good are dependent upon how much is brought to market, and how much money people are willing to spend for the products. This may include the cost of service, labor and/or profit, which has to be earned either way, in order to be able to do either.

There are prices that have the power to ensure solid sales and profit, and there are prices that could cause nothing to get sold, raking in no sales or profit. Equilibrium economics focuses on the wide array of all the possible outcomes, which was influenced by the works of Smith. Samuelson (2009) made direct reference to the significance of Smith's equilibrium method, because in Smith's work particularly in *The Wealth of Nations*, there came the starting point, for the development of a mathematical model of what researchers now refer to as supply and demand. Beginning with the disciplines of Smith, the model was enhanced by Ricardo (1888) following the death of Smith, and remained a work in progress all the way to Samuelson (2009) whose economic analysis is given foundations from the philosophies of Smith.

Smith (1801) was not a econometrical philosopher, but was simply a mathematician. His work in *The Wealth of Nations* however, includes explicit detail and attention to data. This was an example of a historical change in the economic thought process, where quantifiable measures were used to justify a theory. Smith referred to the history of the cost of wheat between 1202 and 1756, and uses it to explain according to Klein (1992), fluctuations in cost in relativity to the price of silver, and other non-typical supply issues. He did this to determine and break down the cost in order to factor in gains. Today, we use this method for full cost pricing, where every detail can be explained in terms of cost.

Klein (1992) has a few objections in terms of certain details within the work of Smith's (1801) quantifiable approach, and his joining of two data sets, although, it can be determined that Smith's approach and use of detailed data both opened new doors and helped carve the path that economic researchers would follow in the next two centuries.

Time and again, Smith used the time-series which is an overview of the fluctuations and changes in certain statistics over a period of time. This is the principle of econometrics today.

The most important contribution that Smith (1801) has made to the research of economics is his influence on the development of Marginal Theory, which created a Marginal revolution at the end of the 19th century. Spiegel (1991) considers Marginal revolution to be the guiding path to the creation and development of equilibrium, where both the consumer and the producer would earn maximum benefits. Equilibrium in economics is the grounds of marginal revolution, as stated previously. Researchers that study Marginal statistics agreed with Smith's efforts and ideas, and they too were interested and even tried to come up with market selling prices, that would create maximum benefit for all. They related factor costs to pricing and accounted effectiveness itself. The marginal revolution confirmed a great deal of information that had stumped economists, including Smith. This was a question of how to calculate and explain the high cost of goods that are of no use, like gold and diamonds, and the low cost of things that we need to survive, like food and water. Shortage may be a part of the reason, but it was not the only reason.

Smith (1801) believed that the value of gold, silver, and other rare, and needless things came from convenience, and appearance. This was the origin of the idea that marginal economist would cultivate into a comprehensive theory. If useless things could become valuable, there was a reason to believe that the meaning of value comes from within ourselves, and what we consider valuable. It meant that if a lot of time and money was spent on the production of something, that it would not necessarily make it more

valuable. Economists began to focus on personal marginal utility, in relation to marginal

utility. If one consumes 40 chickens a month, chickens 20-30 have a comparatively

elevated marginal utility, so that person would be willing to pay a higher price for an

increased amount of chickens, than a person who only consumes 10 chickens a month.

Hypothetically, the cost of chickens can be adjusted by combining their marginal utility

through a complete general public.

Proof of this claim is abundant. Marshall (1895), the first of many economic

leaders built a great deal of his philosophy on the notion of desire, observing, "the need

of attractive account of differences in the amount of pleasure... signified by the same

amount of money" (p. 78). Smith (1801), too, links money to preference (p.30).

If this is not a clear enough explanation of revolution, it is important to think

about how researchers such as Aristotle, Aquinas, and Marx all perceived pleasure to be

the motive in the dealings of economic activities. They wanted to understand this by

governming, theology, and the dictatorship of a people. Smith (1801) and later Marshall

(1895) were not simply describing the principles of economics, but were also discussing

the long history of those who sought profit and hated the idea of pleasure seeking.

Smith (1801) did not talk about or want anything like a complete philosophy of

marginal economics, which helped start the uprising of the economic systems and

operations. Each negotiator made an effort to increase its own financial gain through a

calculus of choice. According to Tribe (2003) economics has transpired into a system of

logic and decision making based on the support of mathematical proof. The idea of

equilibrium pricing working as an invisible hand, that controls the supply and demand of

transactions, and that uses time sensitive information to keep tabs on the "calculus of

choice" has been the reason for the marginal uprising.

CHAPTER THREE: METHODOLOGY

The purpose of this chapter is to provide supporting details and clarification of the systems and metrics used to decide upon the research questions and the testing of the hypothesis for this study. There are six parts of this research which include (1) Research questions and hypothesis, (2) An explanation for the reason the quantitative approach was selected, (3) An explanation of the steps and procedures used in the collection of data, (4) A description of the steps and procedures used in the research study, (5) the limitations of the study, and lastly, (6) Ethical considerations.

Research Questions and Hypothesis

Among four common industry sectors, specifically financial services, manufacturing, retail, and energy, a captivating question which motivates this study is the probability of a CSR-FP relationship being stronger for any of the four specific industries, than it is for other others. The research question is aimed toward researching whether there is a link between FP and social performance, and if this link is the same across the industries, or whether this link is actually customized and different for each of the four industries.

The null hypothesis is the CSR-FP relationship is the same for all sectors. The alternate hypothesis is there is at least one sector for which the CSR-FP relationship varies.

Defense of Quantitative Methodology

The quantitative methodology was chosen for this study because the research question is focused on measurement in the manner elaborated upon in Table 3.

Table 1

Differences between Qualitative and Quantitative Research (McNabb, 2010, p. 225)

Philosophical foundations	Qualitative research designs	Quantitative research designs
Ontology (perceptions of reality)	Researchers assume that multiple, subjectively derived realities can coexist.	Researchers assume that a single, objective world exists.
Epistemology (roles for the researcher)	Researchers commonly assume that they must interact with their studied phenomena.	Researchers assume that they are independent from the variables under study.
Axiology (researchers' values)	Researchers overtly act in a value-laden and biased fashion.	Researchers overtly act in a value-free and unbiased manner.
Rhetoric (language styles)	Researchers often use personalized, informal, and context-laden language.	Researchers most often use impersonal, formal, and rule-based text.
Procedures (as employed in research)	Researchers tend to apply induction, multivariate, and multiprocess interactions, following context-laden methods.	Researchers tend to apply deduction, limited cause-and-effect relationships with context-free methods.

A quantitative methodology was selected for this research study based on the findings within the literature review, as well as studies that used measurement as a primary support for their findings. According to Mcnabb (2010), these types of studies are impartial to the belief that there is only one way to do things, are separate from the researcher, value free and non-judgmental, more efficiently explained in an neutral and proper text, and they include non-circumstantial methods of analysis and discussion. The research question presented focuses a great deal on the measurement and calculations of both CSR and FP performance, and once again, the quantitative method best suits this research study.

Data Collection

Data collection was focused on gathering the following information: (a) The

names of the largest publicly-listed companies in the subdivisions of financial services,

trade, merchandising, and energy in the USA; (b) FP information; and (c) social

performance data for each of these companies. Company names were obtained from the

Fortune 500 list for 2011. A sample of the companies sampled appears in Table 4.

Table 2

Some of the Companies in the Sample

Financial Services	Manufacturing	Retail	Energy
Berkshire Hathaway	General Electric	Wal-Mart	Exxon-Mobil
Bank of America	General Motors	Target	Chevron
J. P. Morgan	Boeing	Kroger	ConocoPhillips
Wells Fargo	Hewlett-Packard	Costco	Sunoco
Citigroup	Ford	Home Depot	Marathon Oil
Goldman Sachs	United Technologies	Walgreen	Constellation Energy
Morgan Stanley	Caterpillar	CVS	Valero
Prudential	Chrysler	Best Buy	Murphy Oil
Northwestern Mutual	Lockheed Martin	Sears	AES
Hartford Financial Services	Northrop Grumman	Lowe's	American Electric Power

The Link between Methodology and Theory

Numerous theories were discussed in the literature review. Each theory suggested

economic life and social life are linked somehow. In this study, the design of quantitative

methodology acknowledges the link between economic and social life. There would be

no point in examining the link between financial performance and social performance if

the two forms of performance were not assumed to be linked.

In the next section of this chapter, the data analysis is explained in terms of how

the data were statistically manipulated. The purpose of the current section is to explain

why the data, specifically, EVA and SIF data, were collected in the first place and to answer the question of why these variables were taken to be accurate reflections of the constructs of financial performance and social performance, respectively. In other words, the EVA and SIF variables need to be justified with reference to both theory and previous empirical studies as the best available operationalization of financial and social performance.

EVA has been used as an operational variable for FP in research studies conducted by Barnett and Salomon (2006), Garcia-Castro et al. It is a measurement of performance while MVA is a measurement of wealth according to (2010), and McWilliams, Siegel, and Wright (2006).

Cumulatively, this body of research, in addition to the theoretiacl explanations given in this section, explain why EVA is an excellent operational variable for measuring FP and why the SIF is an excellent operational variable for measuring CRS.

SIF Methodology and Studies

The SIF corporation produces the SIF rankings for each company on a continuum of 1 to 100, with higher scores representing higher CSR and lower scores representing lower performance. SIF corporation sells its rankings and a product but does not disclose its methodology; if it did so, others would be able to calculate the SIF rankings without purchasing the rankings from the SIF corporation. This situation is not necessarily unique in the social performance information industry; EIRIS and other social performance analysts also sell data. Because of this, there is no way to offer a systematic analysis or critique of the U.S. SIF's methodology. However, the SIF corporation's lack of transparency has not prevented researchers, including, most recently, Berk and Van

Binsbergen (2011) from using the SIF data. Researchers have used the SIF data in numerous ways; typically, a company's SIF score is treated as an independent variable and included in linear regression alongside the dependent variable of FP.

Five studies that employed the SIF methodology were those of Becchetti and Ciciretti (2009); Brammer and Millington (2008); Garcia-Castro et al. (2010); Margolis et al. (2007); and McWilliams et al. (2006). In each of these studies, the SIF score was an independent variable and FP was the dependent variable. Becchetti and Ciciretti (2009), Garcio-Castro et al. (2010), and McWilliams et al. (2006) did not find that the SIF predicted FP (at $p < .05$). Brammer and Millington (2008) found that the SIF predicted FP ($p = .043$, $R = .251$); Margolis et al. (2007) also found that the SIF predicted FP ($p = .037$, $R = .363$).

Data Analysis

This study uses the quantitative methodology. The utilization of CSR performance is used as the SIF score of selected companies for a specific quarter and is what comprises the Independent Variable (IV). FP is the Dependent Variable (DV), and is calculated by a company's EVA for a selected quarter. As a result, the main hypothesis is that a more sustained and stronger involvement of CSR that an industry has, through the calculations of SIF, the better the measurement of FP will be according to the calculations of EVA.

Companies which are listed on the New York Stock Exchange (NYSE) comprise the population of this study. The best performing companies in each of the four industries were examined. The best companies were selected through the Fortune 500 ranking

source, according to the annual revenues. Financial services, energy, manufacturing and retail are the industries under examination.

The sample is 140 companies distributed equally among the four industries. Becchetti, and Ciciretti (2009), for example, observed the links between CSR and FP would become apparent over long- and short-term windows. 10 years was considered enough time in which to measure the significance of a CSR-FP link across the four named industries. The study is cross-sectional; The information was collected for all segments involved in the sample at the same time. The study examines a specific time period which is between Q1 2000 and Q4 2010. This expression explains that data from ten calendar years has been selected and used, and that four quarters of data were taken and examined for each year so that the study essentially focused on quarterly information and not on annual information. The SIF and annual EVA score were measured for the years between 2001 to 2010. The SIF scores were taken directly from the SIF requested data. U.S. SIF (2011) has consented to allow academic researchers to use its current and historic data, and as a result, data collection was obtained without issue. US SIF and the Morningstar database were the two primary sources used to collect data. EVA is a metric system which allows the operation of deducting the cost of investment from the net operating profit after taxes (NOPAT). NOPAT and investment costs are obtainable from the public sources for big companies, and as a result, the information could be measured and calculated from any official financial report, like the reports documented on the Morningstar site (Stern 1999).

It's important to explain how all calculations were completed, despite the fact that EVA computations can be done using 140 separate adjustments, and that the final EVA findings for every one of the companies in the sample were calculated.

The literature has not shown any particular combination of EVA that have been

First, the literature has not identified any blend of EVA regulations that are considered to be a set standard (Stern, 1999). 200 variations of its own EVA data are provided by Morningstar. As mentioned previously, there was no attempt to use originating controls to calculate the numbers of EVA data. EVA data was taken directly from the Morningstar database. The Morningstar database has been used to find EVA figures for publicly traded U.S. companies by prior researchers such as (Berk & Van Binsbergen, 2011; Grajbowska, 2011; Madanoglu et al., 2011; Stegmann, 2009; Thomas & Gup, 2010; Van Dijken, 2007) to obtain EVA figures for publicly listed U.S. companies. This provided a credible and sound support for the justification of obtaining EVA data from Morningstar; a valid source for data obtainment.

One DV, specifically, Cum_EVA and two IVs specifically, Cum_SIF comprise the linear regression analysis in addition to Industry. In order to find out how much Industry adds to the R^2 value produced by Cum_SIF and, within the linear regression, a stepwise linear regression was used for the 6 coefficients for each of the five industries ranked and organized in order to compare the industries with each other, to see impact on the DV of FP. By completing this task, the testing of a null hypothesis was possible to figure out whether any of the industries had a greater 6 coefficient. Testing the hypothesis became an easy task of simply ranking the industries, from first to last in respects to their 6 values, once the 6 coefficients were found through the regression.

Fortune 500 rakings from which the sample was drawn were obtained by examining both the Fortune.com Web site. One issue that arose in choosing the sample was transformation in the alignment of the leading companies. The biggest, for instance (according to the total market value of an enterprises outstanding shares), 140 businesses in the United States in 2012 were not equal with the largest (according to the total market value of an enterprises outstanding shares) 140 companies in the United States in 2000. Some companies that are extremely large and successful in 2012 (such as Google) were not in business in 2000, and some really successful and large companies from 2000 have gone completely out of business. The concern was how to build a reliable and valid sample.

This issue can be resolved through the application of many techniques. Because this is a linear regression, there is one rule that should be followed. The sample cannot differ between the years 2001 and 2010. The type of statistical analysis, and linear regression does not afford differences into the equation. The same 140 companies were examined and tested for each of the 40 quarters. The 140 companies during this period have met the following criteria to be a part of the sample: (1) publicly traded from 2000 to 2010 on a continual basis, (2) Available information for EVA and US SIF (2011) data that had to be available from Morningstar.

By using this sampling strategy, many companies were cancelled out of the sample. As a result, a strong sample was built for companies that were stable between the years of 2001 and 2010. In addition, all of the information needed for the study was accessible. The only downside to this method approach was that throughout a 10 year period, some companies may have significantly changed sizes. A company that earned

$20 billion in annual sales for 2010 might have only earned $200 million in annual sales in 2000. CSR and FP are very sensitive to a company's dimensions so any changes found in the statistical analysis may be due to a company's size (Becchetti & Ciciretti, 2009). Changes could also be related to the CSR-FP link as well. In order to prevent any risks to reliability in association with this downfall, limits were placed on the analysis, to include only the companies that made more than $1 billion in market capitalization. The statistical analysis would in turn, reflect real changes in the CSR-FP link, and not only consider or calculate the changes that occurred as a result of changes in the size of the organization.

The SIF and EVA measures were found from unrelated third-party data references. The researcher is not liable for the methodologies and operations used by the U.S. SIF and Morningstar, and as a result of using this data collection, no analysis of data was done to get CSR and FP variables Consent is granted to student researchers, and allows the use of the data and information that is generated and owned by U.S. SIF and Morningstar.

Two stages separated the collection of data phase. Building the sample of 140 companies over a 10 year period using the sampling method was the first step. Next, access to EVA and SIF numbers for the companies was completed by contacting and consulting with the SIF and Morningstar databases. If both SIF and Morningstar data for the years 2001 to 2010 were not available for a specific company, the company was eliminated and replaced with the next largest company of which both SIF and Morningstar data was available. The collected data were recorded directly into the SPSS program. In terms of methodical process, the most difficult part was collecting the sample

and building the data points. However, the process became much easier and faster when the information was incorporated into the SPSS because the finding of the linear regression equations and the testing of the hypothesis was completed automatically with related software.

Limitations of the Methodology

The choice of 140 companies in four successful industries are the limitations of the methodology. However, the objective of the study was to examine the CSR-FP link, and its functions in four major industries of American businesses, and was not meant to find out how these results are applicable to all public companies. Another limitation was the data were being examined for the 2001-2010 timeframe only, preventing insight into any forms before 2000. FP and CSR have many dimensions, and can be used in many different ways. This study uses FP and CSR in two ways; the SIF rankings are used for CSR and EVA is used for FP. Certainly using different methods for each would result in different findings. Differences were found in the literature review for both the choice of metrics and the choice of periods, of which both can result in very different findings. This does not mean that the analyses are incorrect, but it does mean that the research examination is incomplete. The best approach to take would be to measure 20-30 variables of CSR, in addition to as many variables of FP, for a time period of 20-30 years. After reviewing at least 200 preexisting research studies which have been completed over the past decade, it has been found that no study has ever used as many variables over this length of time before, most likely because putting together the data for this type of method would be really hard, and take a great deal of time because of the lack of technology at the time. In addition, although this method may be possible, the nature and

structure of major companies is always changing. Changes in corporation can complicate

the efforts of finding a CSR-FP link, and how this relationship between CSR and FP is

coming about because a large company faces many different market dynamics than a

smaller company.

The stability of the sample is the biggest limitation of the study sample. A stable

set of 140 companies were created by the elimination of companies whose thresholds for

market capitalization were below $1 billion. The sample can be set up in a certain way,

that allows the measurement of CSR and FP to be done accurately and efficiently. This

study however, is still limited as other studies of this kind are, by the need to choose only

a few metrics to operationalize the CSR-FP link.

Ethical Considerations

The study does not involve human subjects, and all information was obtained

from publicly available sources. Therefore, there were no subject-related ethical issues

associated with the study. The more general ethical obligation respected in this study

were the accurate presentation of data based on the methodology executed.

Conclusion

The purpose of the chapter was to describe and defend the study design utilized to

determine whether there was a CSR-FP link—and, if so, to what extent—among 140

public American companies in four industries. In particular, the use of correlation and

regression was defended as a means of examining the CSR-FP link.

CHAPTER FOUR: PRESENTATION AND DISCUSSION OF RESULTS

The drive of this chapter is to present and discuss the outcomes of examining the

research question and testing the hypothesis articulated for the study. To begin, EVA and

SIF data were gathered for every quarter, from Q1 2001 to Q4 2010, meaning 40

quarters. There were 140 companies in the sample. Of the 140 companies in the sample,

35 were in manufacturing, 35 were in retail, 35 were in energy, and 35 were in financial

services. Thus, there were 2,800 data points for each industry: 1,400 SIF figures for each

industry group in each quarter from 2001 to 2010, and 1,400 EVA figures for each

industry group in each quarter from 2001 to 2010. Linear regression analysis was used to

quantify the relationship between EVA and SIF. No averaging was conducted in the

study; each data point was fed into the linear regression model. The general

determination of the research was to conclude whether the association among FP and

CSR works in the same way for the four industries in the sample or whether this link is

generic and manifests in the same way in all industries.

Before analysis of the data, outliers were identified and removed through the use

of a Q test. Before applying the Q test, the results were anomalous (as indicated by

negative adjusted R^2 values) and non-linear. After applying the Q test, linearity and

positive effect sizes emerged. The Q test resulted in the elimination of less than 4% of

the sample; these outliers skewed the data heavily, obscuring the linear relationships that

existed for the remaining 96%, and identifying and eliminating the outliers was a major

breakthrough in analyzing the data in a manner that yielded meaningful results.

Analyzing the data involved several steps:

1. Morningstar data were used to identify the 35 largest companies in each of the four industries in the sample, namely, financial services, manufacturing, retail, and energy.

2. Morningstar data were used to find the EVA figures for each of the 140 companies in the sample for each quarter in the 2001-2010 timeframe.

3. The SIF (CSR) data were tabulated for each of the 140 companies in the sample for each quarter in the 2001-2010 timeframe.

4. The data were entered into SPSS, employing the following fields: (a) Industry (1 = financial services, 2 = manufacturing, 3 = retail, and 4 =energy); (b) companies were numbered in sequence from 1-35 in each of the four industry fields; (c) SIF scores; and (d) EVA.

5. After creating the model, the hypothesis was tested, which pertained to the correlation between SIF scores and EVA in each of the four industries. The first step was to use SPSS to isolate each of the four industries using the "Select Cases" feature of SPSS.

6. Once the cases were selected, the correlation using the bivariate correlation function within SPSS was carried out.

7. Once the correlations were obtained , their R (Spearman) and p (significance) values were checked in order to determine the magnitude and significance of the correlations and the inferential statistics applied.

Inferential Statistics

In order to answer the research question, four separate linear regression analyses were conducted, one regression analysis per industry (see Tables 3-6).

Table 3

Linear Regression Analysis: Financial Services Industry

Variables entered/removed[b]			
Mode l	Variables entered	Variables removed	Method
1	SIF_Scores[a]		.Enter

a. All requested variables entered.
b. Dependent variable: EVA

Model Summary				
Mode l	R	R^2	Adjusted R^2	SE
1	.126[a]	.016	.015	589.849

a. Predictors: (constant), SIF_scores

ANOVA[b]					
Model	SS	df	MS	F	Sig.
Regression	598070.595		598070. 595	6.090	000[a]
Residual	.497E8	005	47921.9 59		
Total	.553E8	006			

a. Predictors: (constant), SIF_scores
b. Dependent variable: EVA

Coefficients[a]					
Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	SE	Beta		
1 (Constant)	683.668	86.334		7.919	.000
SIF_Scores	6.046	1.507	.126	4.011	.000

a. Dependent variable: EVA

For the financial services industry, the regression was highly significant ($p <$ .001) and the results disclosed a linear relationship between SIF scores and EVA, although the effect size was very small ($R^2 = .016$). The linear regression equation was as follows:

EVA ($) in Financial Services = (SIF score in Financial Services)(6.046) +

683.668.

Table 4

Linear Regression Analysis: Energy Industry

Variables entered/removed[b]			
Model	Variables entered	Variables removed	Method
1l	SIF_Scores[a]	.	Enter

a. All requested variables entered.
b. Dependent variable: EVA

Model summary				
Model	R	R^2	Adjusted R^2	SE
1l	.150[a]	.022	.021	611.916

a. Predictors: (constant), SIF_scores

ANOVA[b]						
	Model	SS	df	MS	F	Sig.
1	Regression	8489205.632	1	8489205.632	22.672	.000[a]
	Residual	3.703E8	989	374441.528		
	Total	3.788E8	990			

a. Predictors: (constant), SIF_Scores
b. Dependent variable: EVA

Coefficients[a]						
Model		Unstandardized coefficients		Standardized coefficients		
		B	SE	Beta	t	Sig.
1	(Constant)	637.611	90.677		7.032	.000
	SIF_Scores	7.498	1.575	.150	4.761	.000

a. Dependent variable: EVA

The regression for the energy industry was highly significant ($p < .001$), and the

results disclosed a linear relationship between SIF scores and EVA, although the effect

size was very small ($R^2 = .021$). The linear regression equation was as follows:

EVA ($) in Energy = (SIF Score in Energy) (7.498) + 637.611.

Table 5

Linear Regression Analysis: Retail Industry

Variables entered/removed[b]			
Model	Variables entered	Variables removed	Method
1l	SIF_Scores[a]	.	Enter

a. All requested variables entered.
b. Dependent variable: EVA

Model summary				
Model	R	R^2	Adjusted R^2	SE
1l	.133[a]	.018	.017	662.574

a. Predictors: (Constant), SIF_Scores

ANOVA[b]						
Model		SS	df	MS	F	Sig.
1	Regression	9402902.326	1	9402902.326	21.419	.000[a]
	Residual	5.224E8	1190	439004.696		
	Total	5.318E8	1191			

a. Predictors: (constant), SIF_Scores
b. Dependent variable: EVA

Coefficients[a]						
Model		Unstandardized coefficients		Standardized coefficients		
		B	SE	Beta	t	Sig.
1	(Constant)	764.048	90.337		8.458	.000
	SIF_Scores	7.235	1.563	.133	4.628	.000

a. Dependent variable: EVA

The regression for the retail industry was highly significant ($p < .001$) and the results disclosed a linear relationship between SIF scores and EVA, although the effect size was very small ($R^2 = .017$). The linear regression equation was as follows:

EVA ($) in Retail = (SIF Score in Retail)(7.235) + 764.048.

Table 6

Linear Regression Analysis: Manufacturing Industry

Variables entered/removed[b]			
Model	Variables entered	Variables removed	Method
11	SIF_Scores[a]	.	Enter

a. All requested variables entered.
b. Dependent variable: EVA

Model Summary				
Model	R	R^2	Adjusted R^2	SE
11	.143[a]	.020	.020	833.420

a. Predictors: (Constant), SIF_Scores

ANOVA[b]						
Model		SS	df	MS	F	Sig.
1	Regression	2.852E7	1	2.852E7	41.065	.000[a]
	Residual	1.373E9	1976	694588.259		
	Total	1.401E9	1977			

a. Predictors: (constant), SIF_Scores
b. Dependent variable: EVA

Coefficients[a]						
Model		Unstandardized coefficients		Standardized coefficients		
		B	SE	Beta	t	Sig.
1	(Constant)	1175.599	85.115		13.812	.000
	SIF_Scores	9.286	1.449	.143	6.408	.000

a. Dependent variable: EVA

The regression for the manufacturing industry was highly significant ($p < .001$)

and the results disclosed a linear relationship between SIF scores and EVA, although the

effect size was very small ($R^2 = .020$). The linear regression equation was as follows:

EVA ($) in Manufacturing = (SIF Score in Manufacturing)(7.235) + 764.048.

Discussion of Results

Each of the four industries displayed highly statistically significant ($p < .001$)

links between CSR and FP. The results indicate that, subject to the limitations of the

study, CSR was associated with the kinds of actions and orientations that allow a business to add economic value to the marketplace, although at low effect sizes. The effect sizes, in R^2, were as follows:

- Financial Services: .016

- Energy: .021

- Retail: .017

- Manufacturing: .020

The mean effect size for all industries, in R^2, was .0185 ($s = .00238$). Using this information, z scores were calculated for each of the industries in order to determine whether any of the industries had an effect size that was significantly greater or significantly less than that of the mean.

- Financial Services z score: -1.05

- Energy z score: 1.05

- Retail z sore: -0.63

- Manufacturing z score: 0.63

All of the industry-specific z scores were fairly close to the mean. In other words, none of the industries was an outlier; the relationship between SIF and EVA appeared to work in statistically identical ways in each industry, as evidenced by the R^2 values and p values in each regression being clustered together, and therefore, the null hypothesis (which was that there would be no significant CSR-FP link) could not be rejected. The implications of these findings will be debated more in the fifth and concluding chapter of this study.

CHAPTER FIVE: CONCLUSION

The purpose of the concluding chapter is to (a) summarize the findings of the study, (b) discuss their significance against past research, (c) offer suggestions for future studies, and (d) acknowledge the limits of the present study. Each of these goals will be accomplished in a separate section of the study.

Summary of Results

The main results of the study can be expressed through the following linear regression equations:

- EVA (\$) in Financial Services = (SIF Score in Financial Services)(6.046) + 683.668; $R^2 = .016$.

- EVA (\$) in Energy = (SIF Score in Energy)(7.498) + 637.611; $R^2 = .021$.

- EVA (\$) in Retail = (SIF Score in Retail)(7.235) + 764.048; $R^2 = .017$.

- EVA (\$) in Manufacturing = (SIF Score in Manufacturing)(7.235) + 764.048; $R^2 = .020$.

The main finding of this study is that higher levels of CSR are associated with an edge in FP, but that this edge, judging by the effect sizes documented in Chapter 4, accounts for no more than 1-2% of variation in FP across industries.

Significance of Studies for Previous Research

Authors in five previous studies employed the SIF methodology, namely, Becchetti and Ciciretti (2009); Brammer and Millington (2008); Garcia-Castro et al. (2010); Margolis et al. (2007); and McWilliams et al. (2006). In each of the studies, the SIF score was an independent variable and FP was the dependent variable. Becchetti and Ciciretti (2009), Garcio-Castro et al. (2010), and McWilliams et al. (2006) did not find

that the SIF predicted FP (at $p < .05$). Brammer and Millington (2008) found the SIF predicted FP ($p = .043$, $R^2 = .0625$); Margolis et al. (2007) also found the SIF predicted FP ($p = .037$, $R^2 = .013$). What was unclear in these previous studies was whether the connection between SIF and FP worked the same for all industries or whether the connection was stronger or weaker. One of the main contributions of this dissertation is to affirm that the previous studies about the SIF-FP correlation holds for all companies.

This study reached a different set of results, in terms of R^2 compared to past studies on the same topic. Making a connection between these results and how they differ from prior research study results is very important. It is very important, particularly when the studies appear to focus on very similar data and methods. In doing so, provides an explanation of the different fluctuations in literature, and provides possible suggestions for future studies, in determining clarity in the use of methods to construct new models that measure the CSR-FP link. Operational metrics used, the periods involved, and the samples used for the studies, are three variables which could help to explain why literature study results vary so much. There are a lot of ways to measure the CSR and FP relationship. Operational metrics explains this. It is important to consider the many ways that both CSR and FP can be operationalized. The choice of capacity implements help to clarify alterations in outcomes.

Suggestions for Future Studies

Many studies have been done to determine the relationship between CSR and FP. However, more research is desperately necessary, because CSR and FP are so vast, and so detailed, that researchers have so many opportunities to examine the different parts of the relationship between CSR and FP. MVA and EVA as expressed in the appendix,

shows that they have newly become a method that researchers can use to operationalize FP. There are many educational and professional reasons to take a further look into the link between CSR and FP.

Both academic and professional researchers are always looking for better ways to explain and make sense of why some businesses and industries do much better than others in terms of FP. There is a clear, yet broad understanding, as a result of this study, that only certain types of CSR are justifiable in the long term, in order to enhance FP (Scholtens, 2008).

It is important for businesses to understand the relationship between CSR and FP according to Ruf et al. (2001), so that they can determine the extent of their investment into responsibility that is necessary to sustain responsible success without losing unnecessarily.

Opportunities in identifying high ROI's based on a company's CSR, and it's influence on FP according to Scholtens (2008), can help investors who are attempting to make smart economic decisions. Understanding the CSR-FP relationship can also benefit governments and other law making entities because they can come up with new ways of rewarding companies that had previously had a low ranking of CSR, in order for them to have incentive to improve, and enhance their dedication to CSR (Maron,2006). There are so many opportunities for further research on ways to improve the efficiency of policy and inquiry.

Limitations of the Study

Four industries, and the study's choice of 140 companies within these industries are the limitations to this methodology. The results may not be applicable to all

companies in the public domain. In addition, a further limitation included the 10 year time period that the data was analyzed for, which only provided an idea of any patterns that resulted prior to 2001. The study implemented two variables, SIF for CSR and EVA for FP. As mentioned before, the many choices and options for methods and metrics, and also timeframe can cause largely different results. Finally, this study does not result in a definitive conclusion on the relationship between CSR and FP

The stability of the sample was the main limitation of the study. Despite the selection of 140 companies and developing a process of elimination by cancelling companies with less than $1 billion in market capitalization, in order to create a stable sample set, and efficiently measuring the CSR-FP link, the study was faced with the same limitations of other studies in this field, which was being limited to selecting a small number of measurement methods in order to

The results of the study conducted should be recognized as being subject to these stated limitations.

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APPENDIX

APPENDIX A

TABULAR OVERVIEW OF PREVIOUS STUDIES

Paper	Constructs	Definition	Variables	Instrument
Barnett & Salomon (2006)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by Social Investment Forum ranking	Human rights The environment HR practices Community relations Supply chain	Linear regression analysis; DV = MVA; IV = Performance on SIF index
	Financial performance	A company's creation of added market value	Market Value Added (MVA)	
Brammer et al. (2006)	Social responsibility	Environmental responsibility as defined by EIRIS audit	Stewardship of environment, lack of environmental violations	Linear regression analysis; DV = Percent change in stock value; IV = EIRIS environmental score
	Financial performance	Stock market performance	Ticker price of common stock	
Clemens (2006)	Social responsibility	Environmental responsibility as self-assessed by company	Self-assessed environmental score	Linear regression analysis; DV = Percent change in stock value; IV = self-assessed environmental score
	Financial performance	Stock market performance	Ticker price of common stock	
Nakao, Amano, Matsumara, Genba, & Nakano (2007)	Social responsibility	Environmental management	Planning, disclosure, education, and management of waste and energy	Linear regression analysis; DV = Tobin's Q; IV = Self-reported environmental performance

Paper	Constructs	Definition	Variables	Instrument
	Financial performance	Various measures of returns on invested money→	Tobin's Q, ROA	(limited to Nikkei, and run again for the DV of ROA)
Bauer, Derwall, and Otten (2007)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by third-party audit	Unknown (variables may be proprietary to Canadian mutual funds)	Linear regression analysis; DV = Percent change in stock value; IV = Presence on, or absence from, screened Canadian mutual fund
	Financial performance	Stock market performance	Ticker price of common stock	
Bauer, Koeldjik, and Otten (2005)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by third-party audit	Unknown (variables may be proprietary to U.S., U.K., and German mutual funds)	Linear regression analysis; DV = Percent change in stock value; IV = Presence on, or absence from, screened mutual funds in U.S., U.K., or Germany
	Financial performance	Stock market performance	Ticker price of common stock	
Bello (2005)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by third-party audit	Unknown (variables may be proprietary to mutual funds)	Linear regression analysis; DV = Percent change in mutual fund value; IV = Presence on, or absence from, screened mutual fund
	Financial	Fund performance	Morningstar value of fund	

Paper	Constructs	Definition	Variables	Instrument
		performance		
Derwall and Koedjik (2005)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by Social Investment Forum definition	SIF dimensions: human rights, environmental stewardship, community involvement	Linear regression analysis; DV = Bond mutual fund return to investors; IV = SIF ranking
	Financial performance	Bond mutual fund returns	Bond mutual fund returns to investors	
Derwall, Gunster, Bauer, and Koedjik (2005)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by third-party audit (Innovest Strategic Value Advisors)	Unknown (variables may be proprietary to Innovest)	Linear regression analysis; DV = Percent change in stock value; IV = Innovest rating
	Financial performance	Stock market performance	Ticker price of common stock	
Karpoff, Lott and Wehrly (2005)	Social responsibility	Lack of environmental misdeeds	Announcements of corporate crime in the WSJ	Linear regression analysis; DV = Percent change in stock value; IV = Being reported in the WSJ for environmental
	Financial	Stock market performance	Ticker price of common stock	

Paper	Constructs	Definition	Variables	Instrument
	performance			violations
Kreander, Gray, Power, and Sinclair (2005)	Social responsibility	How a company lives up to its responsibilities to stakeholders other than its owners; measured by third-party audit conducted by screened mutual funds	Unknown (variables may be proprietary to mutual funds)	Linear regression analysis; DV = Percent change in mutual fund value; IV = Presence on, or absence from, screened mutual fund
	Financial performance	Fund performance	Value of fund	ANOVA between performance of screened and non-screened funds
Mengun and Ozanne (2005)	Social responsibility	Environmental management	10 Valdez Principles	Linear regression analysis; DV = Earnings; IV = Score on Valdez Principles survey distributed by researchers
	Financial performance	Earnings	Earnings of large Australian firms	