

A Brand New Brand of Corporate Social Performance

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We argue that corporate social performance (CSP) has become a legitimizing identity (brand) for researchers in the business and society field, but it has not developed into a viable theoretical or operational construct. Because measuring CSP is contingent on the operational setting (industry, issues, etc.), it is difficult to produce worthwhile comparisons across studies or generalizing beyond the boundaries of a specific study. The authors suggest that researchers remove the CSP label from their operational variables, and instead narrowly define their studies in operational terms. They provide a working example of the proposed research direction by examining the theory underlying the popular CSP–financial performance (FP) debate. In the authors’ conceptualization, stakeholder action provides the underlying logic connecting CSP–FP, and we recast the research question to investigate the conditions under which stakeholders will take action to influence the focal organization and when those actions will influence the CSP–FP link.

The evolution of corporate social performance (CSP) research is marked by several distinct generations of work. Initially, there was an energetic push to develop and define the corporate social responsibility construct as a rebuttal to the notion that a corporation owed a duty only to its stockholders. That is, firms owe a duty to society stretching beyond shareholders (Jones, 1980). Next came the operationalization of this definition (CSP), which researchers used to test the social responsibility notion by outlining the various duties or constituency groups that corporations must honor.

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Much of the work in this area focused on the relationship between CSP and financial performance (FP). However, the aggregate results of this work are contradictory and ambiguous (Griffin & Mahon, 1997). As a result, recent CSP researchers have attempted to explain these “disappointing” findings and offer solutions to direct future study. We hope to instigate the next generation of CSP research—a strong movement toward putting this tired construct to rest.

Much of the recent literature has documented many of the problems associated with empirical CSP research, but few valuable remedies have been offered. We argue that most of the issues facing CSP researchers cannot be overcome within the CSP arena because these problems are inherent in the construct itself: CSP, as a theoretical and operational construct, is fatally flawed. In this article, we will briefly outline the problems associated with the CSP construct to outline our solution. Although CSP in its past form is dead, there is still hope. Our solution involves merging the insights from several distinct, but complementary, stakeholder research streams. We employ aspects of instrumental stakeholder theory (Jones, 1995a), stakeholder matching (Wood & Jones, 1995), stakeholder salience (Mitchell, Agle, & Wood, 1997), networks (Rowley, 1997), and influence strategies (Frooman, 1999) to build a model of the relationship between components of a firm’s social behavior and financial performance.

In the following sections, we describe several problems hindering CSP research, offer solutions for future CSP work and provide a model to direct future research. The logic and boundaries of our arguments are conditioned by two frame-setting assumptions. We will briefly describe these assumptions in an effort to clarify the motives and logic of our critique. First, CSP research comprises an eclectic array of studies that focus on many different sets of social and stakeholder issues. Although this diversity is important for capturing the complexity and multidimensional nature of the construct, it complicates the process of identifying the boundary conditions of CSP research. For the purposes of this article, CSP research is viewed as those works concerned with prescribing, measuring, and predicting aspects of how corporations do and/or should behave given their affect on other social actors functioning in the same organizational field (Scott, 1992). In other words, CSP research involves investigations of variables intended to represent social outcomes of firm behaviors. Some of the proxies for CSP include input-based operational variables, but the underlying construct remains social outcomes. In addition, we recognize that some researchers argue that CSP is a composite term, which includes FP as one of its dimensions (Bendheim, Waddock, & Graves, 1998; Jones, 1995b). However, the majority of business and society research examines CSP and FP as distinct constructs.

Second, we evaluate CSP research exclusively in terms of academic objectives—the pursuit of knowledge and understanding of particular phenomena. In essence, the search for understanding involves the abstraction or simplification of reality in ways that uncover the factors that are associated with, cause, or are correlated with a specific set of events or outcomes. The key ingredient to scientific understanding is the theoretical rationale proposing relationships between factors that will allow for generalized explanations (descriptive and/or prescriptive) of the underlying causes of these multiple events (Mitnick, 1993). The theoretical works in the field attempting to clarify the construct (Carroll, 1979, 1994; Swanson, 1995; Wartick & Cochran, 1985; Wood, 1991) represent and express the main academic objectives underlying business and society research: to build understanding that will normatively guide firms and managers with respect to social behaviors, relationships, and duties; and descriptively identify the relationships among factors influencing corporate social performance (as normatively defined). Our evaluation of CSP research is based on the contributions offered toward these objectives (only): What understanding is gained in terms of the appropriate CSP dimensions? What factors influence a firm's social performance? and What relationships does CSP have with other factors?

Our framework for evaluating the extant work on the CSP-FP relationship leads us to focus on four areas that we see as most problematic, in terms of creating a body of literature that offers some cumulative understanding in this area. In the next section, we detail each of these areas: a disconnect between research objectives from an academic standpoint and the objectives of many of the researchers undertaking this work, the much noted problems of both uni- and multidimensional proxies for CSP (see, e.g., Griffin & Mahon, 1997; Wood & Jones, 1995), and, most important, the lack of a solid theoretical foundation guiding this stream of research. Although some of this ground has been covered in past work, we show that the predominant methodologies used in this work are ill-suited for the task at hand. The insights in the following section guide our suggestions for reframing work in the social issues area, which is offered in the last half of the article.

OBJECTIVES, DIMENSIONS, AND RESEARCH DESIGNS

Researcher Versus Research Objectives

It is interesting that the majority of empirical research in the area involves studies of the relationship between CSP and FP and, as a result, is the focus of our analysis. Although the lack of definitive conclusions from

these studies have motivated researchers to question the theoretical underpinnings of the CSP construct (Mitnick, 1993, 1995) and various methodological approaches (Griffin & Mahon, 1997; Ullman, 1985; Wood & Jones, 1995), few have challenged the rationale for such research. Why perform CSP-FP research? How do CSP-FP studies contribute to the academic objectives in the business and society field?

Although there may be academic meaning in studying the CSP-FP link, there is evidence of supplementary, and sometimes supplanting, purposes behind CSP work. A common assumption underlying CSP research is the notion that "corporations have an obligation to work for social betterment" (Frederick, 1978, p. 150) "beyond the narrow economic, technical, and legal requirements" (Davis, 1973, p. 312). Based on this ideological view of how the socioeconomic system should operate, some CSP research is motivated by the desire to provide a convincing rationale for managers to adopt socially responsible practices, assist nonshareholder groups in their battle against corporate decisions that ignore social stakeholder interests and contribute to the arsenal of academic arguments claiming a broad "stakeholder theory is 'better' than the stockholder theory" (Freeman, 1994, p. 413). Thus, CSP-FP research represents a rebuttal to the notion that corporations should not allocate the owner's *rightful* profits to costly initiatives, such as corporate social responsibility (Friedman, 1962), based on the argument that CSP is not a costly activity detrimental to shareholder wealth.

Griffin and Mahon (1997) identify (and perhaps satirize) this common aspiration/craving in their tongue-in-cheek statement about CSP-FP research: "The 'good news' is that the largest number of researchers have found a positive relationship" (p. 6). Although this research lacks a theoretical rationale for linking it to FP, CSP advocates yearn to find, and search for, a positive connection. Wood and Jones (1995) succinctly summarize this motivation underlying CSP-FP studies: "So the search has been on for many years to link CSP with firm financial performance and to show that CSP is not unprofitable. At worst, such a theory would show that CSP is benign; at best, CSP would be shown to be in the firm's best economic interests. 'Enlightened self-interest' would stand as the ultimate justification for CSP" (p. 240). However, what does justifying CSP provide? Justify CSP in what way? Wood and Jones (1995) address these questions:

The development of this literature from the early days of Preston and Post (1975) up through the recent work on cause-related marketing and strategic philanthropy can be characterized by the simple idea that CSR/CSP would be supported by managers and their decision making process if only it could

be shown that companies can 'do good and do well,' or even better that they can 'do well by doing good.' (pp. 234-235)

We contend that these attempts to justify CSP in the eyes of managers and other audiences do not contribute adequately to the academic objectives stated above. Although FP might be related to CSP under certain circumstances as either an antecedent condition or outcome variable (Preston & O'Bannon, 1997), it provides only a small piece of the descriptive puzzle. Although we make a rather bold argument here, it is worthwhile pondering what value to science—to understanding—we derive from CSP-FP research even if unambiguous results are obtained? The search for a positive relationship lacks strong theoretical rationales for expecting this connection (Ullman, 1985). As a result, even if data analyses consistently yield support for this beseeched relationship, little understanding is gained with regard to why such an association exists. In other words, the only possible outcome from this research design is a justification of the field and does not contribute to knowledge of why CSP and FP are linked. Learning that CSP is positively or negatively related to FP does not help us understand how firms should behave (what behaviors lead to CSP), and/or what antecedent conditions influence CSP (besides perhaps FP).

Thus, the proclivity toward CSP-FP studies in this area does not correspond to the limited contribution this research can make to academic objectives. We argue that the proliferation of CSP-FP research is a function of the research environment (the researchers' objectives) rather than the appropriate research objectives. CSP-FP research represents an attempt to legitimize the researcher and the business and society field, rather than build understanding that guides firms through social aspects of their decisions or reveal the factors influencing a firm's CSP. As summarized by Wood and Jones (1995), a positive relationship between CSP and FP would provide credibility and legitimacy to CSP researchers, justifying the field within the economic and strategy paradigm. However, the weight given to CSP-FP investigation in terms of the relative number of studies does not correspond to the small contribution toward research objectives.

Single Dimensions as Proxies for CSP

Although there are several organizing frameworks, CSP is consistently viewed as a multidimensional construct. Wood (1991) develops a hierarchy of interpenetrating dimensions: principles, processes, and outcomes. Clarkson (1995) categorizes CSP dimensions according to different stakeholder groups surrounding the focal organization. In addition, other

schemes include dimensions corresponding to particular issues. For example, Post and Baer (1980) examine the issues involved with the use of infant formula in less developed countries. In addition, the Kinder, Lydenberg, and Domini (KLD) database, an extensively utilized measure of CSP, includes "exclusionary screens" (Domini Social Investments, 1997, p. 15), which identify social issues from which firms should not gain economic rents, such as alcohol, gambling, smoking, weapons manufacturing, and nuclear power generation.

Although CSP is a multidimensional construct, many researchers rely on a single dimension in their operationalizations. Generalizations about the CSP-FP link have been made from studies that operationalize CSP using air pollution (Chen & Metcalf, 1980; Fogler & Nutt, 1975; Freedman & Jaggi, 1982; Ingram, 1978; Shane & Spicer, 1983), illegal activity (Baucus, 1989; Davidson & Worell, 1988) and product recall (Bromiley & Marcus, 1989; Hoffer, Pruitt, & Reilly, 1988; Reilly & Hoffer, 1983). Two criticisms are commonly directed at the practice of performing single dimension studies. First, these studies do not capture firms' social performance as they "inadequately reflect the breadth of the construct" (Griffin & Mahon, 1997, p. 25) and thus lack an appropriate level of validity. A clean record on air pollution does not uncover other aspects of CSP, such as illegal activity (antitrust, insider-trading), employee relationship issues (sweatshop labor in less developed countries), or products deemed socially undesirable (weapons or nuclear power). For example, through the stakeholder lens, CSP is a measure of a firm's behavior toward several constituent groups (see Jones, 1980). As such, attention to any one stakeholder group, or issue for that matter, neglects other groups/dimensions and cannot independently serve as a proxy for CSP.

Second, in addition to validity problems, the reliability of this approach is suspect. Generalizations from these studies and comparisons to other CSP studies have little credibility and provide few insights. In the set of studies they examine, Reed, Getz, Collins, Oberman, and Toy (1990) find that social performance is measured in at least 14 different ways. How do we compare empirical CSP studies employing firms' toxic release profiles to those exclusively focusing on illegal activity? There is no reason to assume that these studies will lead to consistent findings or that comparisons would have any meaning. Moreover, this comparison problem is exacerbated because many CSP-FP studies involve multiple industries (Griffin & Mahon, 1997), which are characterized by distinct issues and stakeholders. These industry-level factors make comparisons across studies meaningless as there is no way to control for heterogeneity related to the dependent variable. That is, we cannot assume that the appropriate dimensions of CSP in a given organizational field (or industry) are also

relevant and form a comprehensive set for another operational setting. Thus, single dimension research designs lack the validity and reliability necessary for generalizing study findings beyond the research setting. As a result, this design significantly limits our ability to build understanding of CSP phenomena.

Aggregating Multiple Dimensions

Another common research design (and perhaps an attempt to address the problems associated with single dimension studies) has been to aggregate several CSP dimensions into a composite measure. However, there are a number of issues related to composite measures. First, what does the aggregate measure represent? A firm receives a single CSP score based on the sum or average tallies across dimensions. What does a score of 6 mean? How do you compare a firm that receives a *satisfactory* rating on all dimensions with a firm that receives *poor* ratings for half the dimensions and *excellent* ratings for the other categories? That is, a firm that treats all of its stakeholders “reasonably” well may receive a similar rating to a firm that is well above average in its employee policies but is well below average on pollution abatement. Thus, by aggregating multiple dimensions into a composite measure, much of the meaning and richness in the data is lost, and comparison across firms (and studies) is more difficult. Second, there is a question of whether all the dimensions comprising the measure should receive the same weight. Is treatment of employees (hours worked, equal opportunity policies, profit-sharing, etc.) less or more important than air pollution practices, philanthropic and community involvement, or product recalls? Moreover, multiple dimensional studies do not necessarily rely on the same set of dimensions, which raises two issues: What are the appropriate dimensions required to build a comprehensive CSP measure? and How can we make comparisons across studies without a common measure?

Griffin and Mahon (1997) offer a solution that addresses the problems inherent in each of these multiple dimension measures. They build an aggregate measure based on a firm’s average rank across multiple measures—Fortune Reputation Survey, Toxic Release Index, Corporate Philanthropy Index, and Domini Social Index. “The combination of both perceptual and numerical information (KLD) allow us to triangulate toward a representative measure of a firm’s corporate social performance while mitigating the limitations and impacts of any single one of the measures” (p. 16). However, there is no reason to assume that the combination of these independent (but perhaps overlapping) measures will actually address the problems in each one. The dimensions that overlap across these measures, such as

the pollution prevention category in the KLD data and emission levels in the Toxic Release Index, gain more importance (weight), whereas other categories gain less power in determining a firm's CSP. The relative weights assigned to each dimension are a by-product of this particular operationalization rather than a theoretical rationale that argues why this approach better captures the latent construct.

In addition, we argue that the stream of work that aggregates multiple CSP dimensions utilizes an inappropriate research design. More specifically, in many cases, the choice of analytical model is misspecified given the nature of the data and dimensions combined to represent CSP. For example, consider the components of the commonly used KLD measure: community (charitable giving, and support for housing, education, and other social initiatives), diversity (female and minority promotion, special interest group policies), employee relations (union relations, retirement benefits and employee profit sharing, and empowerment), environment (product attributes, pollution prevention, and recycling), and so on. Researchers employing this and other multidimensional operationalizations have not provided a theoretical rationale suggesting these dimensions are correlated. Moreover, we suggest that there is no general theoretical reason to assume that charitable giving, employee profit sharing, and pollution prevention are significantly correlated. Also, there is empirical evidence that the KLD dimensions are not strongly correlated (Berman, Wicks, Kotha, & Jones, 1999; Johnson & Greening, 1999). Thus, the aggregation of dimensions does not represent a coherent latent (unobservable) variable.

As such, what can be expected from studies that perform correlation or OLS regression analyses of the relationships between CSP and other factors, such as FP? What would a significant finding indicate? Given the weak correlation structure among CSP dimensions, a positive and significant CSP-FP relationship would mean that some subset of the aggregated dimensions of CSP are related to FP, but the overall relationship has no meaning. Because the CSP measure is not internally correlated, suggesting that certain empirical findings show an association between CSP and FP is inaccurate and misleading. In addition, the explained variance is likely to be small because the unrelated CSP dimensions would contribute to the model's error term. Thus, this research design is misspecified as it introduces unnecessary noise into the model and leads to incomprehensible findings. The problem is not a matter of degree. These approaches are not simply suboptimal but, rather, are wrong given that they produce results that cannot be interpreted.

Alternative research designs and analytical models are required. Structural equation modeling is more appropriate because researchers can simultaneously examine the measurement model—the relationship between each

(latent) CSP dimension and each item used to capture it—and a structural model—the relationships among each latent variable including the dependent variable (e.g., FP).

No Theory, No CSP

One of the reasons that we lack a theoretical justification for a universal CSP measure relates to the underlying problem that pervades CSP research. Ullman (1985) argues that CSP research is no more than “data in search of theory.” Mitnick (1993) specifies these theory development problems, arguing that attempts to build theory in the field have neither failed to employ a sorting logic to justify the models nor considered the comprehensiveness of the phenomenon. As a result, the models “are little more than heuristics or graphical displays of lists; they are not conceptually operational” (p. 4). Mitnick’s comments describe the field’s attempt to define and operationalize the CSP construct: That is, the aggregation of multiple categories representing pieces of CSP is no more than a list, which is not supported by an underlying understanding of CSP or a rationale for including the various categories as appropriate and comprehensive. Thus, Ullman’s (1985) criticism stems from the observation that CSP lacks a “good sorting logic” that brings meaning to these lists of categories (Mitnick, 1995).

Thus, CSP-FP research lacks the appropriate level of theory to suggest why and how these constructs are related. Oftentimes, law-like statements identify the researchers belief or opinion with regard to the CSP-FP relationship. However, law-like statements with regard to the connections between a set of variables do not constitute theoretical contributions in the realm of social science because there is little understanding generated from these claims in terms of explaining why (how) these relationships occur (see Mitnick, 1995).

ADDRESSING THE ISSUES

In the sections above, we outline several problems inherent in CSP-FP research. Empirically, CSP measurement has been handicapped by two fundamental flaws. On one hand, CSP—an inherently multidimensional construct—has been operationalized using single factor proxies. On the other hand, in attempts to operationalize the multidimensional nature of the construct, researchers have combined various mishmashes of uncorrelated variables, which render correlation and ordinary least squares regression results indiscernible. Moreover, even if these empirical problems

are adequately addressed, CSP-FP research is unlikely to yield valuable academic contributions because these investigations lack well articulated theoretical rationales to support and explain statistically significant results. In this section, we offer two broad suggestions for addressing these problems. First, we argue that it is necessary to adopt an alternative approach to generating research questions based on a contingency approach. Instead of the barefoot-empiricism approach, which simply involves scanning data for statistically significant results linking CSP and FP, researchers need to sincerely examine the conditions under which a relationship (positive or negative) should be expected. Second, we suggest that researchers treat CSP as the *brand* (or logo) that identifies the work, and perhaps researchers, in the field; however, CSP should be eliminated as an operational construct of interest. Instead, focus should be placed on building theory more closely related to the operational setting. This approach means that we build theory and perform empirical studies on specific areas related to CSP rather than attempt to build a grand CSP theory. In addition to these suggestions, we illustrate our recommendations and attempt to guide future research in this direction by presenting one possible CSP-FP framework.

Contingency approach—the right questions. Above, we argue that the motivation driving work in CSP-FP has largely been a desire to influence managers and gain legitimacy among academic peers. One of the implications of this process has been the working assumption that CSP and FP are universally related. Like most polar extreme arguments, this relationship is theoretically untenable. Although there is likely to be evidence of a relationship between CSP and FP, it is difficult to defend the statement that these variables will be related *under all conditions*. Only the most naïve (or blindly hopeful) among us will assume that poor (good) social behavior will always have negative (positive) financial implications. There are potentially many factors that influence—mediate and moderate—the link between CSP and FP. To understand the relationship between these variables, it is necessary to consider when they are related as well as the boundaries outside which the relation does not exist.

Thus, although researchers interested in building legitimacy for the field have been driven by the question of whether a link exists between CSP-FP, the complexity of the social process involved—number of variables and complexity of relations among them—dictates that a universal answer does not exist.

We are suggesting that a contingency framework is more appropriate for addressing the CSP-FP issue—under what conditions are CSP and FP related, and what is the nature of that association? Using the *under what*

conditions approach is advantageous because this type of question forces researchers to build theoretical models to drive empirical investigations and moves the field away from the unrealistic “universal” argument. By considering the conditions under which CSP-FP are positively and negatively related, researchers in the field will build understanding and uncover the variables and processes leading to these relationships.

Operational setting. The problems related to employing single and multiple dimensional operationalizations of CSP are a result of attempts to build a proxy for CSP without a strong theoretical rationale. It is not likely, however, that a general theory of CSP will be constructed and widely accepted in the near future. CSP is a complex collection of factors that do not maintain the same meaning across contexts (as is expected of general theoretical models). That is to say, CSP as a theoretical construct, does not “travel” well (Sartori, 1970). This is precisely because social performance must be defined according to the social context. The number and types of stakeholders surrounding a given set of firms are unique to the particular social environment—the organization field, industry, stakeholder network or issue domain (whichever boundaries are used to identify the relevant environment). The nature of firm responsibilities within the specified boundaries are determined by the set of issues and the needs and rights of the stakeholders involved. Thus, defining CSP in a meaningful way requires attention to the unique characteristics of the operational setting. For example, researchers have been able to develop theories with regard to the relationships between illegal activity or environmental initiatives and financial performance. It is less feasible to argue that these empirically supported findings constitute a general theory of CSP, which holds across multiple settings. Put more boldly, we argue that CSP is not a theoretically viable construct.

The collective process of assembling specific studies that can be related to the CSP concept requires clarity and precision in the variables used to represent pieces of CSP. That is, to fully understand the relationships between certain variables that might be influential in understanding CSP, we must concentrate almost exclusively on the operational setting rather than attempt to justify these empirical variables as proxies for CSP. Thus, instead of using air pollution, philanthropy, illegal activity, employee relations, product recall or some combination of measures to serve as a proxy for CSP, researchers should build and test theory specifically related to the operational setting—a study of corporate behavior related to pollution abatement should be based on theory about corporate pollution behavior. This research agenda avoids the problem of attempt-

ing to derive general truths from unrelated studies. In this way, the ambiguous cloud of incomparable CSP proxies will be avoided.

This approach is advantageous because it opens the field to other research streams that deal with similar variables but have been underutilized because they are not in a position in the field nor do they use CSP language. For example, although Hoffman's (1999) study of the institutionalization of the chemical industry provides deep insight into the process by which CSP dimensions are created within an organizational field, it has not been presented in CSP terms nor received much attention from researchers in the field. Thus, examining specific behaviors related to CSP, but not treating them as simply proxies for CSP, allows researchers to reduce the confusion resulting from single and aggregate measures of CSP and expands the field to the rich contributions from other areas.

A CSP-FP FRAMEWORK BASED ON STAKEHOLDER ACTION

We provide a model as an illustration of one possible approach for addressing the problems inherent in CSP research. By altering the main research question and focusing on the operational setting, we show how existing theoretical work from stakeholder and organizational theory research can be used to build knowledge concerning CSP-FP. Similar to work on interorganizational alliance formation, which employs transaction cost, resource dependency, institutional and strategic choice theories to examine the rationales for alliances (Kogut, 1988; Oliver, 1990), and how partners are chosen (Gulati, 1995), CSP is treated as a problem set or phenomena explainable using existing theory. Again, the primary focus we suggest for this work is an examination of the conditions leading to a relationship between CSP and FP. When will CSP and FP be related? Even more interesting to the field, when will CSP and FP be positively related—when will positive CSP lead to positive FP, and when will negative CSP be related to negative FP?

In applying the contingency approach, we consider two general conditions under which a CSP-FP relationship should be expected. First, in some instances CSP and FP will be positively correlated (but no causal link exists). Corporate actions that have positive social implications may also lead to operational efficiency gains. Behavior, such as better employee relationships—on-site day care, employee profit sharing, and other actions associated with positive CSP—may lead to higher worker satisfaction and better recruitment, which could translate into better FP. It is not necessarily the case that the social good resulting from the actions create (cause)

financial gain, but rather, the behavior has implications in both realms. If an on-site day care (assuming this policy produces positive social outcomes) leads to higher productivity because employees are willing to spend more time working, then this corporate policy influences both social and financial performance.

Second, in addition to instances when social good and FP are joint outcomes of specific firm behaviors, under some conditions, social outcomes of firm actions will be causally related to FP. To build theory that causally links the social outcomes of corporate actions to financial performance, however, researchers need to specify the mechanisms/processes of such a relationship—what sequence of events or behaviors are necessary to produce such linkage. We offer one explanation (among perhaps several complementary rationales), based on the logic of stakeholder action, that causally links socially-oriented behavior with FP.

Social consequences of corporate behavior will positively influence FP when stakeholders take actions to sanction—reward or punish—a firm's action in an attempt to change or reinforce that behavior. Stakeholder actions (e.g., boycotts, government lobbying, stock ownership, etc.) and the firm's response to that action (e.g., public relations strategies and communications, new staff positions and departments, lobbying, compliance, etc.) affect a firm's costs and/or revenues. Thus, the nature of stakeholders relationships—the types of stakeholders (Clarkson, 1995; Mitchell et al., 1997), their influence strategies (Frooman, 1999) and how firms respond (Rowley, 1997)—drive many of the conditions under which CSP positively influences FP. We argue that stakeholder action is part of the mechanism linking social performance with FP, based on the assumption that for socially responsible (irresponsible) behavior to influence financial performance, stakeholder groups must be cognizant of the firm's behavior, be willing to take action to influence the firm, and have the capabilities to do so. It might seem obvious that when stakeholders take action to organize student body protests against poor labor practices in developing countries (e.g., Nike) or consumer boycotts (e.g., Shell's plan to sink the Brent Spar), we should expect to witness negative financial impacts. Less obvious, but central to our suggested research direction is the question, Under what conditions do stakeholders take actions meant to influence a firm's behavior (with respect to its social outcomes) in ways that affect the firm's FP?

In the next section, we introduce one model of how such work could be pursued. The primary goal of presenting this model is not to provide the comprehensive model of studying social issues, but rather to show how the insights developed in this article might be used to drive research in social performance and the CSP-FP link. We believe that the demarcation between circumstances in which firm actions lead jointly to social and

financial outcomes, and social behavior influences FP is potentially valuable in understanding the CSP-FP link because the mechanisms and logic used to link these constructs are distinct. Given space constraints and the focus of this special issue, we only elaborate on the precursors to stakeholder action. Delving into the link between operational efficiency and a CSP-FP relationship is worth pursuing but beyond our present scope. The framework presented here is meant to focus on the question of the conditions that are antecedent to a relationship between some aspect of social performance and financial performance, it is not meant to lead to a “general theory” of CSP-FP, because we do not believe one is forthcoming.

WHEN WILL STAKEHOLDERS ACT?

We start with the question, Under what conditions will social performance be related to financial performance? Fundamentally, the action related to social performance must affect either the firm’s revenue or cost structure to affect FP. Our model (see Figure 1) therefore examines some of the dimensions that are related to stakeholder actions, which affect a firm’s ability to generate revenue (such as boycotts) or alter the costs of doing business (such as employee strikes or changes in the regulatory environment).

Firm characteristics. The bilateral relationship between the focal firm and its stakeholders may be the most important driver of stakeholder action. How a firm interacts with a particular stakeholder affects its propensity to initiate action against (or for) the firm. Jones (1995a) hypothesizes that managerial actions perceived as opportunistic will be correlated with lower levels of firm performance due to difficulties in dealing with reluctant social actors. Applying this idea to stakeholder action, firms that routinely exhibit a lack of good faith in collective bargaining, for example, will be more prone to stakeholder actions as the firm is perceived as less trustworthy and stakeholders sense a need to actively protect their interests. Thus, past behaviors toward stakeholders influence the likelihood of stakeholder action.

We propose that firm size is related to stakeholder actions as well. Market leaders in terms of revenues, market share, or total assets are more prone to stakeholder action. Given resource constraints, activist-stakeholder groups often make a rational choice to target market leaders, those with a wide presence, as a means of encouraging other stakeholder groups to participate. Frooman (1999) illustrates that many stakeholders employ an indirect influence strategy—a stakeholder group (perhaps a group with an

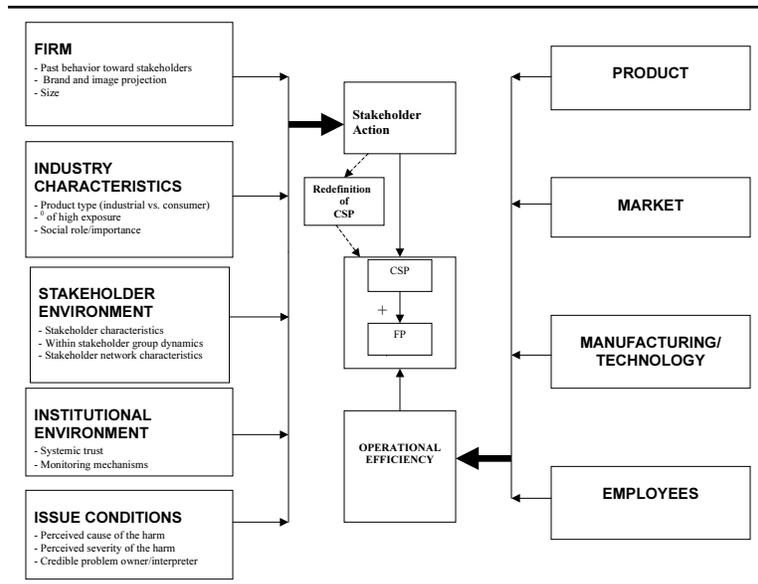


Figure 1. Factors Producing a Positive CSP-FP Link

Note: CSP = corporate social performance; FP = financial performance.

urgent claim) influences another stakeholder (perhaps a more powerful actor) to affect the focal firm. Also, the more a firm's competitive position is based on differentiating itself (Porter, 1980) through a branding strategy, the more likely it is that stakeholders will direct the firm's actions toward it because such a strategy can serve as a lightning rod for stakeholder action—a firm's brand can also be used by a stakeholder to produce a negative image. For example, the *CorporateWatch* activist group's campaign against developing-country labor included referring and graphically depicting the Nike "swoosh" as a "swoo-stee-ka."

We suggest that this relationship is even stronger for firms that associate their brand with a "green" or "socially responsible" image because such a stance is an open invitation to public scrutiny. Work in this area therefore examines the relationships between individual firms and its stakeholders, in an attempt to discern if specific firm characteristics are related to stakeholder action.

Issue conditions. Stakeholder action requires an issue to serve as a catalyst. Jones' (1991) model of moral intensity outlines the characteristics of an issue that are most likely to incite action. Although this model is meant to explain individual action, the same dimensions are useful when exploring stakeholder action. We suspect that the most salient aspects involve the

perceived magnitude of the consequences related to the issue, previous consensus that the issue is a dimension of social performance, the proximity of the harm associated with the issue to the stakeholder group, and the concentration of effect. Stakeholder action also hinges on the ease with which a source of the concern can be identified. As we propose in the previous section, it is much easier to galvanize support when the action can be directed toward a single firm or group of firms in a localized area (a number of firms polluting the same river, as opposed to water pollution more generally).

Industry characteristics. Although much of what drives stakeholder action is related to particular issues or specific firm-stakeholder relationships, there are many factors within the industry setting that are related to stakeholder action. Following from the idea that consumers are one conduit to affecting firm FP, industries closer in the value chain to consumers will likely face higher levels of stakeholder action. In addition, stakeholders are likely to target industries with a high level of “exposure” (Miles, 1987)—those industries that involve either the exploitation of natural resources or heavy industry with the potential to cause great harm to human life (e.g., the chemical industry). This follows because the actions of these industries often can harm entire communities (e.g., Love Canal) or destabilize complete ecosystems (e.g., coal mining in West Virginia, which involves shearing the tops off hills). Stakeholders with interests tied to such industries have a greater incentive to take action because the severity of the potential harm is (perceived to be) much higher. As well, such harm can attract the attention of important stakeholders such as the media, government, and class action lawyers, enabling broader stakeholder action.

Stakeholder environment. Characteristics of particular stakeholder groups, as well as the surrounding stakeholder environment, influence the likelihood of action. Mitchell, Agle, and Wood (1997) suggest that stakeholder action may be influenced by the relative levels of power, urgency, and legitimacy the stakeholder holds in relation to the focal firm. Intuitively, powerful and/or legitimate stakeholders with urgent claims are more likely to take action that will financially affect the focal firm than stakeholder groups with less advantageous relationships. Urgent claims are necessary for stakeholders to contemplate taking action to reinforce, ensure or change a firm’s behaviors.

However, the question of whether a stakeholder will act can be framed as a collective action problem. Olson (1965) states that collective action is problematic because rational self-interested individuals make cost-benefit decisions on whether to participate, and there are clear incentives not to participate because free riding achieves the same benefits as partici-

pation. In stakeholder terms, all individuals that share the same interests as those represented in the stakeholder group will receive the benefits of any stakeholder action regardless of whether they participate. (This argument assumes the benefits of stakeholder action cannot be easily bounded or restricted—i.e., a public good.) Collective action will most likely occur under conditions that decrease the costs of overcoming free-rider problems or the incentives for individuals to free ride. Thus, although an urgent claim is necessary for stakeholder action, it is far from sufficient. Olson (1965) states that regardless of the intensity of the claim or grievance, collective action costs can inhibit group action. He argues that small groups are more likely to mobilize because free riding can be more easily monitored and punished.

Past stakeholder mobilization is another factor increasing the likelihood of future collective action. The costs of establishing norms and coordination tasks and designing an action plan are reduced when the individuals in the group have acted collectively previously. The social movement literature illustrates this point. Shin (1994) explains how the succession of Korean peasant uprisings produced a collective consciousness, which was an important resource for each subsequent action. McAdam (1982) concludes from an examination of the Civil Rights movement in the United States that a history of past action among a set of individuals produces a shared understanding of interests, which reduces the costs for future collective action. As well, the early success of the pro-life advocates in the abortion debate is attributed to the existing infrastructure supporting activism by the Catholic Church (Zald & McCarthy, 1987).

Not only do within-stakeholder-group dynamics influence the likelihood of stakeholder action, but across-group-relational characteristics play a role. Rowley (1997) argues that the density of relationships among the set of different stakeholder groups surrounding the focal firm determine how easily these stakeholders can collectively monitor the focal firm and punish deviant behavior. Members of a dense network gain a social capital advantage (Coleman, 1990). This relational governance mechanism, which limits opportunistic behavior, assists in reducing the costs of interacting with other members of the network, and improves the flow of tacit knowledge (Rowley, Behrens, & Krackhardt, 2000). As a result, a given stakeholder group can more easily ally with other stakeholder groups to organize effective action. Frooman (1999) argues that dependent stakeholder groups (Mitchell et al., 1997) must indirectly influence the focal firm by swaying other stakeholder groups to take action. The establishment of norms and ease of information sharing reduce the costs of forming a stakeholder alliance, which help weaker stakeholders organize effective action and therefore serve as an incentive for their mobilization.

Institutional context. The broader institutional context also plays a role in either stifling or encouraging stakeholder action. The literature on organizational trust suggests that institutional contexts, which support the development of trust between firms and stakeholders, diminish the likelihood of stakeholder action. Moreover, industries that are uniquely important to a nation's economy or national culture will be less likely to be the focus of concerted stakeholder action. Different sectors of society, and even within the economic sector, play different roles in the overarching social system (Parsons, 1951). The type of responsibilities a firm or group of firms are required to assume is contingent on their prescribed roles and the importance of those roles to the survival and/or prosperity of the overall system. Thus, stakeholder action will likely be affected by the institutional structure in which social actors are embedded. In practical terms, in a social system that relies heavily on a particular industry for tax revenues, jobs, and innovation, stakeholders are less likely to be able to effectively influence the focal firm. For example, heavy investment by the Canadian federal government in its biotechnology industry is evidence of the perceived importance of this industry to the Canadian economic and social systems. As a result, we suspect that the social issues surrounding the industry—genetically modified food, intellectual property rights, privacy, genetic pollution, and super bugs—will lead to less effective stakeholder action than in other countries in which biotechnology is less important.

THE TIMES THEY ARE A CHANGING SOCIAL PERFORMANCE

A better understanding of the antecedents to stakeholder action is imperative to moving research in CSP-FP forward. Studying the precursors to stakeholder action also opens doors to other questions besides the CSP-FP link. One of the outcomes of stakeholder action is a possible redefinition of social performance. The foci of stakeholder action are not static but have evolved over time. An overarching constraint on the CSP-FP relationship is how social performance is defined. Changing definitions of acceptable environmental degradation is only one example of such issue evolution. In the logging industry, for example, clear-cutting forests was once socially acceptable, whereas today the major forestry firms can be judged by the extent to which their timber holdings are sustainably managed, with regard to criteria such as protecting habitat for wildlife and reducing soil erosion. These changing performance metrics, influenced by stakeholder action, are also central to any link between

social and financial performance. We see this evolutionary process as an equally important avenue of study.

This research tack involves studying the institutionalization of CSP. In effect, the evolving definition of CSP becomes an endogenous variable. Researchers then study what factors shape how CSP is defined in the subjective world of reputations and legitimizing processes. This line of inquiry involves questions such as the following: How are firms judged with respect to CSP measures? Are CSP ratings “sticky”? That is, once a firm is identified as a “high” or “low” performer on some social performance criterion, is there a tendency for these reputations to remain despite actual performance changes? Do CSP ratings of firms within a given industry converge over time?

These questions are specific to the evolutionary and institutional process by which CSP measures are created, utilized, and changed. That is, we should be investigating how different players in a given organizational field influence how the norms—standards of behaviors—laws, and monitoring policies are established and change over time. Again, Hoffman’s (1999) study of the chemical industry shows the fruitfulness of such a technique. Examinations of the evolution of relationships and coalitions among firms and key stakeholders would give insight into the development of how social performance is measured and how it evolves.

CONCLUSION

The arguments presented here are meant to challenge researchers interested in studying the social outcomes of firm behaviors: to treat CSP as an identifying brand, but not a viable construct, and to develop theory grounded in specific operational settings. CSP is neither a theoretically nor an empirically viable construct. Attempting to generate a “universal” theory of CSP-FP has only led researchers astray by making it harder for any findings to be interpretable because of the methodological techniques typically employed in such work (i.e., the aggregation of unrelated variables). Labeling work in this area as CSP, no matter what independent and dependent variables are used, has similarly hindered the cumulation of findings because it is often difficult to find comparable studies. We present two main recommendations to remedy these problems. First, theoretically grounded research should be undertaken within narrowly defined organizational contexts and labeled as such. In this way, studies of similar phenomena can be more easily compared, paving the way for better theory development within each area. Second, we strongly suggest that social issues researchers move away from a focus on the CSP-FP question.

Instead, research should be focused on understanding phenomena, such as why stakeholders take action, that are part of the mechanisms creating relationships between types of social behavior and other factors, including FP. Asking these questions requires an understanding of the particular dynamics of firm-stakeholder relationships, which supports the generation and testing of theory within specific operational contexts. It is somewhat ironic that eschewing work in CSP per se will allow for a better understanding of firm's social performance.

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