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Corporate Social Responsibility and Financial Performance: Does it Pay to Be Good?

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CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE:

DOES IT PAY TO BE GOOD?

SUBMITTED TO

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AND

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BY

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Abstract

The prominence of corporate social responsibility (CSR) initiatives today suggests that the corporate perception of such policies has shifted from an unnecessary addition to a critical business function. Using a reliable source of data on corporate social performance (CSP), this study explores and tests the relationship between CSP and corporate financial performance (CFP). Unlike prior research, this study additionally tests the impact CSP has on sales and gross margin in hopes of providing insight on sales strategies that can be implemented to maximize the impact of the relationship. The dataset includes most of the S&P 500 firms and covers years 2001-2005. The relationships are tested using time-series regressions. Results indicate that CSP and CFP have a significantly positive relationship in both directions, supporting the view that CSR programs have positive impacts on the bottom-line. Results also indicate that increased CSP leads to increases in gross margin, indicating that some customers are willing to pay a premium for the products and/or services of a company with CSR initiatives. Lastly, results also indicate that increases in CSP leads to a decrease in sales, which implies a decrease in customer base because less people are willing to buy the products at premium. Despite the result on sales, I argue in this paper that firms can increase sales by increasing CSR investments—assuming increases in CSR investments leads to higher CSP—as long as the perception of programs transform from socially responsible, philanthropic actions to programs promoting corporate shared value (CSV).

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CHAPTER 1: INTRODUCTION

1.1 Problem Orientation

"There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[1]

Milton Friedman (economist and Nobel Prize laureate)

"A certain amount of corporate philanthropy is simply good business and works for the long-term benefit of the investors."[2]

John Mackey (Chairman and CEO, Whole Foods Market)

In this study, I propose to examine the relation between corporate social responsibility (CSR) programs and corporate financial performance (CFP). More specifically, I seek to examine whether the implementation of CSR programs is associated with increased sales and gross margin in the long-run. In 1970, Milton Friedman ignited a robust debate with the above quote in the *New York Times* that is still being disputed. On the surface of his argument, it appears that Friedman believes businesses should not adopt corporate social responsibility (CSR) programs because they are outside the profit-making scope and are unnecessary expenditures. Progressing deeper into his argument, it is revealed that Friedman supports the integration of CSR programs into business operations, but <u>only</u> if it positively impacts profitability in the long-run. John Mackey, like many critics of Friedman, believes Friedman's view is too focused on investors and argues that corporations have a social responsibility to its other

[1] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits." *The New York Times*, September 13, 1970.
[2] "Rethinking the Social Responsibility of Business," *Reason.com,* October, 2005, accessed September 19, 2012, http://reason.com/archives/2005/10/01/rethinking-the-social-responsi.

stakeholders, even if such responsibility entails a sacrifice in profits. This study serves to strip off these socialism and capitalism biases on social responsibility to show the objective, financial impacts of CSR programs.

This study has implications for managers, the beneficiaries of CSR programs (environment, community, consumers, employees, and stakeholders), and future research. Over the past ten years, there has been a drastic increase in implementation of CSR programs from organizations of all sizes. The increase in expenditures to enhance the social responsibilities of corporations suggests managers find a benefit in CSR implementation. Hence, this study attempts to provide information on the impact of CSP on financial performance that managers can use to structure business strategies to maximize future returns. If managers are interested in investing in social responsibility initiatives, this study predicts how their organizations will be impacted financially and describes strategies managers can employ to satisfy their constituents. Future research in the area of corporate social responsibility may consider how CSR initiatives impact financial performance across different industries, whether CSR programs add value to intangible assets such as brand, and how transparency of CSR reporting impacts stakeholder decisions and, ultimately, financial performance.

1.2 Background to the Research Problem

The need for established social responsibilities and ethical frameworks in business has become a main priority in our current society. This attitude is supported by the fact that the number of the most well-known global corporations integrating corporate social responsibility (CSR) programs into their business operations has never been greater. The prominence of CSR initiatives today hint that executives' perceptions of such policies have shifted from an unnecessary addition to a critical business function.

1.2.1 Definition of Corporation Social Responsibility

According to financial theory, there exists one overlying objective of a corporation: to maximize the value of shareholder's wealth. This objective is straightforward and complements the financial interest of shareholders. However, corporations are impacted by stakeholders other than shareholders, constituents who are often motivated by non-monetary interests such as the company's impact on the community and environment. With so many conflicting interests and goals of stakeholders, the definition of CSR is not always clear. For the purpose of this study, I will define CSR as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law."[3] Understanding this definition requires the recognition that CSR policies are actions that go *beyond* obeying the law to positively impact society (the community, environment, employees, etc.). Hence, a corporation that improves the well-being of employees by implementing sound whistleblowing procedures, for example, is not being socially responsible, but rather abiding by the law (specifically, the Sarbanes-Oxley Act of 2002). corporate social responsibility programs include actions to improve the environment, community, and lives of all the stakeholders of an organization.

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[3] A. Williams and D.S. Siegel, "Corporate social responsibility: a theory of the firm perspective," *Academy of Management Review* 26, no. 1 (2001): 117.

To merely state that a corporation is socially responsible and abides in ways to positively impact society is not sufficient—evidence of concrete CSR strategies is required. One example of a company that engages in a multidimensional CSR strategy is McDonald's, the world's largest chain of fast food restaurants. Four specific CSR actions of the company are sustainable supply chain strategies, environmental responsibility, consumer well-being, and corporate philanthropy. McDonald's creates a sustainable supply chain by "purchasing from suppliers that follow practices that ensure the health and safety of their employees and the welfare and humane treatment of animals."[4] By doing so, the company chooses suppliers by standards more than what is supplied, but how the products are supplied. Second, McDonald's has partnered with the Environmental Defense Fund (EDF) since 1989 to improve the company's environmental footprint. One specific project involved the EDF helping McDonald's redesign its packaging, resulting in the elimination of "150,000 tons of packaging waste."[5] Third, McDonald's impacts the well-being of their consumers by "listing calorie information on restaurant and drive-through menus nationwide,"[6] even when it is not yet required by the FDA. Lastly, McDonald's has been the largest corporate donor to Ronald McDonald House Charities, a not-for-profit organization that provides housing for families with critically ill or injured children who must travel to fulfill their medical needs. McDonald's raises money for RMHC by donating a portion of its profits, holding annual

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[4] "Focused on the 3E's: Ethics, Environment, and Economics." *Sustainable Supply Chain*. McDonald's Corporation. Web. 18 Sept. 2012. <http://www.aboutmcdonalds.com/mcd/sustainability/our_focus_areas/sustainable_supply_ chain.html>.

[5] "McDonald's & Environmental Defense Fund Mark 10th Anniversary Of Landmark Alliance." *Environmental Defense Fund*. Web. 23 Sept. 2012. <http://www.edf.org/news/mcdonalds-environmental-defense-fund-mark-10th-anniversary-landmark-alliance>.

[6] "McDonald's to List Calories on Menus." *Business*. The Wall Street Journal, 12 Sept. 2012. Web. 20 Sept. 2012. <http://online.wsj.com/article/BT-CO-20120912-709401.html>.

fundraisers, encouraging employees to volunteer, and donating all of its profits from its sales of USA Today.[7] Together, these four CSR actions affect all of the company's stakeholders, either directly or indirectly. Whether such actions are beneficial to the financial performance of the business—a direct impact to all stakeholders—will be examined in this study.

1.2.2 Recent Trends in Corporate Social Responsibility

The reputation for ethical practices in the business and accounting professions hit an all-time low in terms of consumer confidence and trust during the years 2001 and 2002. First, the Enron scandal surfaced in late 2001, resulting in the loss of thousands of jobs, life savings, and homes in the United States. Then, in 2002, the number of unethical business practices pinnacled with a soaring 20 cases of corporate malpractice, according to Forbes.[8] The stakeholders of organizations—or any party that can affect or be affected by the actions of the organization, including customers, employees, suppliers, government, creditors, community, environment, and investors—responded to these events by demanding that corporations devote more resources to CSR measures to mend the tarnished reputation of the profession. The increase in this demand was drastic from March 2001 to July 2002, as seen below in Figure 1 according to a telephone study completed by Cone Communications that includes the views of 1,040 American adults.[9]

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[7] "Ronald McDonald House Charities." *McDonald's Relationship*. Web. 21 Sept. 2012. <http://rmhc.org/who-we-are/our-relationship-with-mcdonald-s/>.
[8] "The Corporate Scandal Sheet." *Forbes*. Forbes Magazine, Web. 24 Sept. 2012. <http://www.forbes.com/2002/07/25/accountingtracker.html>.
[9] *2002 Cone Corporate Citizenship Study: The Role of Cause Branding*. Cone Communications, 1-7.

Figure 1

A company s commitment to social issues is important when I decide	July 2002	October 2001	March 2001
Which companies I want to see doing business in my community	84%	80%	58%
Where to work	77%	76%	48%
Which products and services to recommend to other people	75%	72%	—
Which stocks/mutual funds to invest in	66%	63%	40%

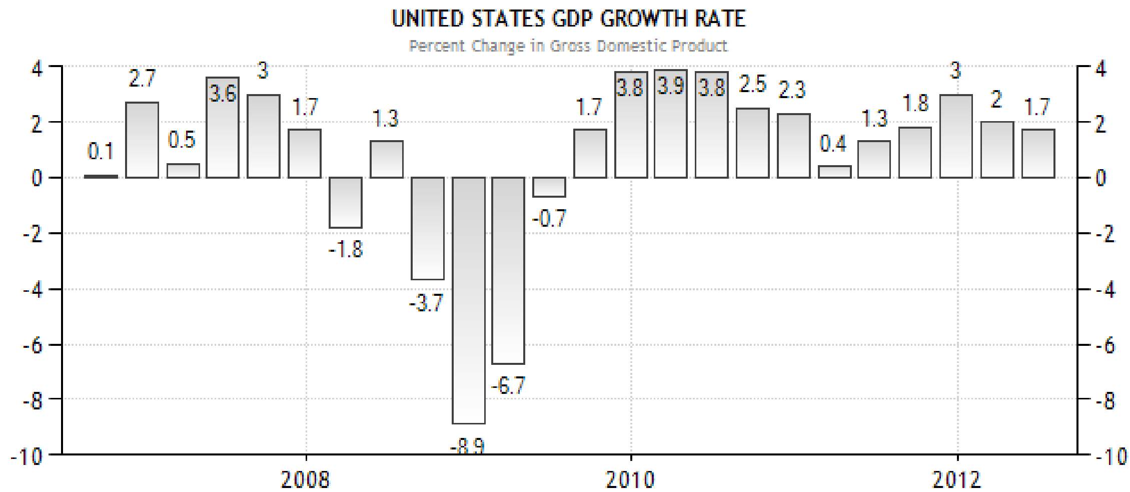
Note. From *2002 Cone Corporate Citizenship Study: The Role of Cause Branding*. Cone Communications, 4.

The demand in the past decade for increased integration of CSR policies in business has been met with increased corporate giving and increased corporate reporting on socially responsible projects. According to *Giving USA,* charitable donations given by corporations in 2011 amounted to $14.6 billion,[10] compared to $9.05 billion in 2001[11]—a 61.3% increase. However, as seen in the graph below, corporate giving in the United States did not increase steadily over the decade, signifying that certain social and economic events impacted corporate philanthropy.

[10] "Giving USA." *Donations Barely Grew at All Last Year*, 19 June 2012. Web. 01 Oct. 2012. <http://philanthropy.com/article/Donations-Barely-Grew-at-All/132367/>.
[11] "2001 Giving USA Study Released." *OMB Watch*. 21 June 2002. Web. 26 Sept. 2012. <http://www.ombwatch.org/node/718>.

Corporate giving in 2003, for example, rose by 13.5% and can be explained by an increase in interest by corporations to rebuild the industry's tarnished reputation from the financial scandals of 2001 and 2002. There was also a significant increase in 2005 due to a huge collaboration among corporations to fundraise and contribute to the disaster relief efforts for Hurricane Katrina victims. The biggest marginal increase transpired in 2007, with a 13.9% increase in corporate giving. This massive increase is attributed to the strong stock market performance in the first half of the year and a peak in GDP and economic growth in the United States during 2007. According to the Bureau of Economic Analysis, the GDP of 2007 would not be met again until 2010—as seen in Figure 2 below—which is largely attributable to the burst of the housing bubble in the United States and its major economic impact on the economy.

Figure 2



Note. From "United States GDP Growth Rate." *Trading Economics*. Bureau of Economic Analysis, Web. 04 Oct. 2012. <http://www.tradingeconomics.com/united-states/gdp-growth>.

Corporate philanthropy is only one piece of an effective CSR program. Another important CSR strategy is environmental awareness. According to the 2010 “Greening of the American Workplace” survey given by the Buck Consultant group (a subsidiary of Xerox) to 120 businesses from a wide variety of industries, “69 percent of survey respondents have green programs in place.”[12] These results revealed a 30 percent increase in green efforts from 2009, when only 53 percent of businesses surveyed had green initiatives in place. It can thus be concluded that not only is the integration of one aspect of CSR becoming more prevalent in a corporations in the past decade, but rather a stronger focus on a balanced, multidimensional CSR program.

Recent trends also indicate there has been an increase in CSR reporting in the past decade, and this does not only hold true to American corporations. Every year, KPMG,

[12] "Green Programs Save "Green", Buck Consultants Survey Reveals More U.S. Employers Measuring Cost Savings Stemming From Environmental Efforts." Xerox, 11 Apr. 2011. Web. 28 Sept. 2012. <http://news.xerox.com/pr/xerox/Buck-Consultants-Greening-of-the-American-Workplace-Survey-Results.aspx>.

one of the Big Four accounting firms, publishes "The State of Global Corporate Social Responsibility Reporting" report, which includes research on the CSR programs of global organizations. In the 2011 report, the Global Fortune Top 250 companies were reviewed. The report found that 95% of global companies issue annual CSR reports that summarize their CSR initiatives.[13] In comparison, the 2002 KPMG report disclosed that only "45% published a separate corporate report on their performance."[14] In sum, the last decade has realized a 111% increase in CSR reporting to stakeholders. Other avenues for CSR reporting include corporate webpages, advertising, and separate annual reports on community giving or green programs. In addition, increased reporting is beginning to be strengthened by independent third party assurance. PricewaterhouseCoopers works with Craib Design & Communications to publish an annual "CSR Trends" report, conducting CSR research on global organizations. In the 2010 report, 423 companies in multiple countries were reviewed. The report showed that 31% of companies have their annual CSR reports assured by third parties.[15] By doing this, corporations enhance the validity of their CSR reports to stakeholders. Similar to financial statement audits—which provide assurance from third parties stating the company's true actions are reflected in the financial statements—audits of CSR programs increase the trust and confidence stakeholders have in the organization.

1.2.3 Corporate Social Initiatives

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[13] *KPMG International Survey of Corporate Responsibility Reporting 2011*. Publication. KPMG, 2011. Print.
[14] *KPMG International Survey of Corporate Sustainability Reporting 2002*. Publication. KPMG, 2002. Print.
[15] *CSR Trends 2010: Stacking Up the Results*. Publication. PricewaterhouseCoopers, 2010. Print.

A comprehensive, multidimensional CSR program consists of three major categories: environmental, social, and governance. Within each category are specific CSR initiatives. The initiatives below are all incorporated into the CSP measurement of the CSR dataset used for this study provided by MSCI Inc.

Environment

Effective sustainability programs include sustainable products, pollution prevention, recycling, and clean energy. Sustainability efforts are based on a single principle: to minimize the environmental footprint of a corporation's operations and maximize sustainability. An example of a sustainable environmental CSR initiative is Cisco Systems' initiative called "Cleaner Air and Millions in Savings."[16] Cisco designed their headquarters in San Jose, CA, "to exceed California's state Title 24 energy standards by 15 to 20%."[17] They have done this by investing in energy-efficient lighting, motion detector lights, and computerized temperature controls. As a result, the company saves enough energy to power 5,500 homes for a year,[18] and has minimized their environmental footprint. Cisco benefits from reduced operating costs and the environment benefits from "almost 50 million fewer pounds of carbon dioxide per year and 14,300 fewer pounds of nitrogen oxide."[19] One criticism of this program is that it is not CSR, but rather a cost reduction program. However, based on the definition of CSR used in this paper, Cisco's program exceeded the environmental laws, and thus the program is justifiable classified

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[16]Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken, N.J: Wiley, 2005, 213.
[17] "Case Study: Energy Efficiency in Design and Construction." *Cisco*. Web. 05 Oct. 2012. <http://www.cisco.com/web/about/ac227/ac228/ac229/about_cisco_corp_citi_case_study.html>.
[18] "Case Study: Energy Efficiency in Design and Construction." *Cisco*.
[19] "Case Study: Energy Efficiency in Design and Construction." *Cisco*.

as CSR. Additionally, I argue in the conclusion of this paper that the title “CSR” must be changed to corporate shared value (CSV) to eliminate such criticisms and strengthen such programs in the future.

Social

Effective social programs include community, human rights, employee relations, diversity, and product safety initiatives. Community initiatives can be accomplished through cause-related marketing and corporate philanthropy. Cause-related marketing is when a “corporation commits to making a contribution or donating a percentage of revenues to a specific cause based on product sales,”[20] and usually involves a corporation partnering with a non-profit organization. This initiative has the potential to create a mutually beneficial relationship between the corporation and non-profit because it generates additional sales of a product and financial support for the non-profit. An example of an effective cause-related marketing strategy is Yoplait’s “Save Lids to Save Lives.”[21] In this program, customers must clip and collect pink lids from purchases of Yoplait yogurt and send them into General Mills. For every lid received, General Mills will donate 10 cents to Susan G. Komen for the Cure for a certain time period.

Corporate philanthropy is when a corporation makes a direct donation to a charity or cause. In 2010, the corporation that gave the most was Kroger, the largest grocery store

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[20] Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken, N.J: Wiley, 2005, 114.
[21] "Participating Is Simple." *Save Lids to Save Lives*. Yoplait, Web. 05 Oct. 2012. <https://savelidstosavelives.com/HowItWorks?Length=0>.

chain in America,[22] giving $64 million (10% of its profits). Kroger gives millions of dollars each year to fund K-12 education, hospitals, non-profits, and religious organizations. Organizations they serve include the Salvation Army, Boys & Girls Clubs, United Way, and numerous schools.

Other social initiatives include human rights, employee relations, diversity, and product safety initiatives. Companies with strong human rights initiatives ensure a two-way communication between employees, customers, and corporate executives exist. In addition, the companies do not violate such rights as child labor, privacy, and fairness. Employee relations initiatives include having good union relations, strong health programs, and strong benefit programs. Diversity initiatives embrace actions to increase the women and minority populations of the organization, including increasing their representation on the Board of Directors. Product safety initiatives serve to ensure the products are safe to use.

Governance

Corporate governance is the "framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its stakeholders (financiers, customers, management, employees, government, and the community)."[23] Governance applies to CSR because it is essential that corporations issue comprehensive, high-quality CSR reports. A corporation's CSR program cannot affect financial performance if there is no CSR report or advertisement of the CSR

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[22] Emerson, Greg. "The 10 Most Charitable Companies in America." *Yahoo! Finance*. 2 Dec. 2011. Web. 05 Oct. 2012. <http://finance.yahoo.com/news/the-10-most-charitable-companies-in-america.html>.
[23] "Corporate Governance." *Definition and Meaning*. N.p., n.d. Web. 05 Oct. 2012. <http://www.businessdictionary.com/definition/corporate-governance.html>.

initiatives in some form because stakeholders are not aware of CSR programs being implemented. For this reason, proper governance, or transparency and completeness in CSR reporting, is an integral part of an effective CSR program.

CHAPTER 2: LITERATURE REVIEW

The exponential increase in expenditures to enhance the social responsibilities of corporations in the past decade suggests managers find an economic benefit from CSR programs, especially considering the financial objective of a corporation is to maximize shareholder's wealth. However, empirical studies of CSP and financial performance started over three decades ago and the results of these studies have been mixed. There are three possible results for the relationship between CSP and CFP: negative association, no association, and positive association. The empirical studies that have the most comparable methodology for measuring CSP and CFP to this study will be discussed for each of the three conclusions, as well as the possible reasoning behind each conclusion.

2.1 Negative Association

Lopez *et al.* (2007) analyzed CSP and financial performance across the years 2002-2004 and found a negative relationship. To measure financial performance, the study used the accounting measure of profit/loss before taxes. To measure CSP, the study used the Dow Jones Sustainability Index (DJSI) and the sample consisted of 110 European firms. The study controlled for industry, size, and risk. The theory behind this finding is companies that engage in CSR programs are at a disadvantage because they are incurring unnecessary and avoidable costs. One limitation of this study is that it only analyzes the short-run relation between CSP and financial performance, concluding that "the effect of sustainability practices on performance indicators is negative during the first years in which they are applied"[24] and suggests long-term research must be done to strengthen such a conclusion. The finding of a negative correlation between CSR and CFP, though an uncommon finding compared to other similar empirical studies, indicates that more current research needs to be done on this topic.

2.1.1 Milton Friedman

Similar to the Lopez *et al.* (2007) study, Milton Friedman—economist and Nobel Prize laureate—argues that CSR and CFP have a potential negative relationship. In his 1970 article in the *New York Times,* "The Social Responsibility of Business is to Increase its Profits,"[25] Friedman takes a capitalist position and refutes the popular belief that businesses have social responsibilities. He argued that a "corporation is an artificial person" and therefore cannot have real responsibilities. Instead, the corporation's executives are the people who hold the responsibilities. They have a "direct [social] responsibility to [their] employers," and must conduct the business in a way that maximizes profits while respecting the law and ethical norms. Corporate executives who take socially responsible actions with business assets are violating the free enterprise America is based upon because it is essentially taxation without representation, since it is

[24] Lopez, M., Garcia, A., & Rodriguez, L. (2007). Sustainable development and corporate performance: A study based on the Dow Jones Sustainability Index. *Journal of Business Ethics,75,* 285–300.
[25] Friedman, Milton. "The Social Responsibility of Business Is to Increase Its Profits."

essentially "spending someone else's money." Businesses who decide to engage in socially responsible actions risk losing the support of stakeholders who enable them to generate profits, and this cost greatly outweighs any benefit of social contributions. True social responsibility, Friedman argues, instead lies with the benefactors of the corporation's profits—customers, employees, and shareholders—to use their returns (in the form of dividends, bonuses, etc.) to invest in society. Friedman's definition of corporate social responsibility, therefore, is taking an action external to profit maximization to improve the community and environment. He claims that it is executive's sole social responsibility to maximize the firm's value, which indirectly enables stakeholders to uphold their social responsibilities by "spending [their] own money, not someone else's" to improve the environment and community.

On the surface of his argument, it appears that Friedman believes businesses should not adopt corporate social responsibility (CSR) programs because they are outside the profit-making scope. However, this is a misperception. Progressing deeper into his argument, it is revealed that Friedman supports the integration of CSR programs into business operations, but does not support businesses labeling them as social responsibility initiatives. Friedman redefines CSR programs as profit-making programs, because he believes "social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions." In other words, he believes true social responsibility is absolute altruism, or in no way linked to self-interest. In contrast, a business executive is a reciprocal altruist—one who expects some economic benefit in return for a socially responsible action—when they engage in CSR programs.

The first requirement for Friedman to support a company's CSR program is re-titling the programs to acknowledge the expected reciprocity. For example, Friedman would support a company's CSR program if the company stated a purpose for engaging in a program was cost reduction, or even marketing, since it reveals the positive financial impact the company expects in return for being socially responsible. The second requirement to receive Friedman's support of a company's CSR program is ensuring the program has a positive impact on financial performance. Friedman states in the article that CSR programs are only justified if they will increase, rather than sacrifice, firm value:

> *"It may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects. Or it may be that, given the laws about the deductibility of corporate charitable contributions, the stockholders can contribute more to charities they favor by having the corporation make the gift than by doing it themselves, since they can in that way contribute an amount that would otherwise have been paid as corporate taxes."*[26]

In comparison with the Lopez *et al.* (2007) study, Milton Friedman argues that CSP and CFP have a negative relationship if the second requirement is not met. In contrast, Friedman would argue that CSR programs have a positive relationship in the long run if both requirements are met.

2.2 Null Hypothesis

The empirical and theoretical studies to date also propose a second possibility: that there is simply no relationship between corporate social responsibility and financial

[26] Friedman, Milton. "The Social Responsibility of Business Is to Increase Its Profits."

performance. The most recent and reliable empirical study finding an uncertain or no relationship is the 1985 study conducted by Aupperle *et al.* (1985). The four components of CSR programs in this study were economic, legal, ethical, and philanthropic responsibilities. In order to avoid some methodological problems of measuring CSP in previous studies, they created their own measurement for CSP and, through empirical testing, concluded their methodology was reliable. Their measure included the surveying of 241 CEOs. To measure financial performance, they used return on assets (ROA) and "employed both short-term (one year) and long-term ROA (five years)."[27] The study concluded that there is no statistically significant relationship between social responsibility and financial performance; "it did not matter whether short-term or long-term ROA were used, nor did it matter if that indicator were adjusted or unadjusted for risk." Not only does this study highlight another possible relationship between CSR and CFP, but that methodology for measuring CSP can influence the relationship. In order for the conclusion of such a study to be valid, using a valid and reliable methodology to measure CSP is crucial.

One question remains: how can no relationship exist between CSP and CFP? A theoretical study conducted by Ullman (1985) attempts to answer this question. Ullman conjectured there are so many intervening variables between CSP and CFP that there is no reason to expect any relationship at all.[28] Additionally, Ullman indicated there are many measurement problems that still exist to measure the intangible impacts of

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[27] Aupperle, K.E., A.B. Carroll, and J.D. Hatfield: 1985, 'An empirical examination of the relationship between corporate social responsibility and profitability', *Academy of Management Journal* 28: 458.
[28] Ullmann, A. 1985, 'Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance of US firms', *Academy of Management Review* 10 no. 3: 541.

corporate social responsibility. Current measurements of CSP involve certain amounts of judgment since all components of CSR are not as quantitative as dollars spent on CSR programs, so the validity of such measures may confound CSP and CFP results. The awareness levels of stakeholders to a corporation's CSR programs may also contribute the null hypothesis. If stakeholders are not aware of the CSR programs due to ineffective marketing, the programs cannot affect their decisions and attitudes toward the corporation, and thus will not impact financial performance.

2.3 Positive Association

The instrumental stakeholder theory is formed from two theories, and suggests there is a positive relationship between CSP and CFP.[29] First, the instrumental theory is an economic theory that predicts what results will occur as a result of management decisions.[30] The second theory, the stakeholder theory, is an ethical theory that proposes managers have a duty to put stakeholders' needs first in order to increase the value of the firm. This theory is broader than the shareholder theory, which argues managers only have a duty to maximize the value of shareholders, as Milton Friedman supports. The instrumental stakeholder theory, then, asserts that stakeholder satisfaction influences financial performance (Jones, 1995).[31] Furthermore, this theory asserts that corporate executives can increase the efficiency of their organizations by aligning the business to meet the desires of stakeholders. Past empirical evidence emphasizes that stakeholders as a whole find some value in CSR programs. Therefore, the instrumental stakeholder

[29] Jones, T.M. (1995). "Instrumental stakeholder theory: a synthesis of ethics and economics." *Academy of Management Review*, 20, 430
[30] Jones, T.M. (1995). "Instrumental stakeholder theory: a synthesis of ethics and economics." 406
[31] Jones, T.M. (1995). "Instrumental stakeholder theory: a synthesis of ethics and economics." 406

theory suggests CSR programs increase stakeholder satisfaction and ultimately, financial performance.

The majority of recent empirical and theoretical studies on CSP and CFP indicate they are positively associated. The most comprehensive study with positive results was a meta-analysis conducted by Orlitzky *et al.* (2003).[32] A meta-analysis is a strong method of research because it weighs the parameters of individual studies, as opposed to aggregating studies. This specific meta-analysis examined 52 studies with a 33,878 sample size over a 30-year span. Orlitzky concluded that not only does CSP have a positive influence on CFP, but vice versa as well, hinting that a bidirectional relationship exists between the two variables. This conclusion supports the instrumental stakeholder theory because managers reap financial benefits by meeting the needs of stakeholders. Due to reciprocal benefits of the relationship between stakeholders and the organization, this study supports the position that CSR programs are associated with multiple tangible financial benefits in the long-run.

2.3.1 Factors Contributing to a Positive Association

The increase in expenditures in CSR projects in the past decade suggests managers find an economic benefit from CSR programs. Recent studies show that most of the studies find a positive relationship (van Beurden and Gossling, 2008; Wu, 2006; Allouche and Laroche, 2005; Goll and Rasheed, 2004; Orlitzky, 2003) Here are a few examples that

[32] Orlitzky, M., F. L. Schmidt, and S. L. Rynes. "Corporate Social and Financial Performance: A Meta-Analysis." *Organization Studies* 24.3 (2003): 403-41.

may explain why socially responsible companies experience positive effects on the financial bottom line:

Enhanced Organization Reputation

CSR programs are competitive advantages because they improve corporate reputation. Stakeholders are more likely to engage in transactions with companies that have a CSR record of showing a commitment to the community and environment. The benefits of enhanced reputation include less scrutiny from society, an increase in customer and investor loyalty, and an increase in intangible assets—all of which lead to stronger financial performance in the long run. First, firms that engage in CSR programs receive less scrutiny from the community. McDonald's and its involvement in the Ronald McDonald Houses, serves as a perfect example. McDonald's commitment to helping families in need enhanced its reputation to the community. During the 1992 South Central Los Angeles riots, as pointed out by Philip Kotler and Nancy Lee in their book, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause,* "vandalism caused tremendous damage to business in the area… [but] rioters refused to harm [McDonald's] outlets."[33] As a result, McDonald's acquired a competitive advantage against opponents by avoiding numerous vandalism expenses through its involvement in CSR and enhanced reputation.

Second, firms with CSR programs increase both customer and investor loyalty. Taking a psychology perspective, Maslow's Hierarchy of Needs explains why CSR improves

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[33] Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken, N.J: Wiley, 2005, 37.

customer loyalty. Maslow's needs are frequently portrayed in the shape of a pyramid, with the most basic needs at the bottom. The first is physiological needs—needs necessary for survival like food and water. The second is safety needs like personal, health, and financial safety. The third is the need to belong. This need includes forming emotionally significant relationships with friends and family. The fourth need is esteem, which encompasses the need to be respected and valued by others. The last need, self-actualization, is becoming everything one is capable of becoming.[34]

CSR programs enable companies to meet their customers' need beyond belonging. Customers sacrifice a portion of their net worth to a company when they engage in a sales transaction. Their sense of belonging to that company thereby inevitably increases. However, CSR programs also improve the esteem of customers because they enable customers to feel more valued by society since they are helping improve the community with their consumer decisions. CSR programs also boost customer's abilities to reach self-actualization because they provide convenient ways to contribute and customers receive personal benefits in return: the benefit of the service or product received and enhanced self-purpose for making a contribution to the society. Again, companies with CSR programs gain a competitive advantage because their customer base becomes more stable. Maslow's Hierarchy of Needs applies to investors as well because they are motivated to reach self-actualization and thus are more loyal to companies with CSR programs. In addition to loyalty, investors are also more likely to invest in responsible companies. The chart below provided by the Economist Intelligent Unit in "The importance of corporate responsibility" conveys this indication:

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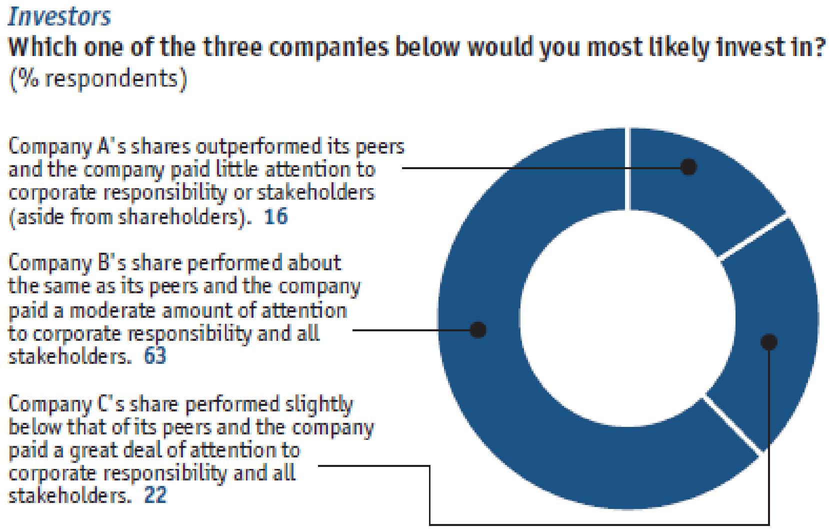
[34] Maslow, Abraham H. *Motivation and Personality.* New York: Harper, 1954, 15-22.

Figure 3



Note. From *"The importance of corporate responsibility."* Economist Intelligence Unit, 33.

In sum, 85% of the 64 institutional investors surveyed in 2004 considered the company's CSR programs to some extent when making an investment decision. Interestingly, 22% of investors surveyed would still invest in a company if it were performing slightly below its peers because the company's commitment to social responsibility.

Lastly, CSR programs can strengthen brand value, an intangible asset on the financial statements. In 2009, Tiago Melo from the University of Salamanca found that "CSR impacts positively on brand value."[35] Brand value measurements were extracted from the "Most Valuable Brands" reports—created by the consultancy firm Interbrand—published annually by the *Financial Times*. The KLD Index database was used to measure CSR and the study controlled for risk, size, and research & development investment. Financial performance was measured by market value added (MVA). This study incorporated the

[35] Tiago Melo. "Effects of Corporate Social Responsibility on Brand Value." Thesis. Universidad De Salamanca, 2009, 22.

view that CSR has a stronger impact on intangible assets than financial returns. As opposed to other similar studies, this study compared CSR to both intangible and tangible financial performance indicators. It was concluded that brand value had a stronger positive relationship to CSR than MVA. The study, therefore, concluded that firms benefit economically from the implementation of CSR programs because they increase intangible assets on the balance sheet.

Increased Sales

Another potential explanation for a positive associate between CSP and CFP is that CSR programs are revenue generators[36]—especially in the long run—either through an increased customer base or an ability to increase prices. Evidence from the Corporate Social Responsibility Perceptions Survey in 2010 supports this claim. Conducted by the research-based consultancy Penn Schoen Berland with brand consulting firm Landor Associates and strategic communications firm Burson-Marsteller, the 2010 survey was based on 1,001 online interviews with U.S. consumers. The results indicated that "American consumers are willing to pay a premium for goods from socially responsible companies, with 70 percent saying they would pay more for a $100 product from a company they regard as responsible."[37] More research must be done to determine how much more they are willing to pay, but these results illuminate that corporations may be able to benefit from increased revenues with CSR actions. However, a possible limitation

[36] Orlitzky, M. (2008). Corporate social performance and financial performance: A research synthesis. In A. Crane, A. McWilliams, D. Matten, J. Moon, & D. S. Siegel (Eds.), *The Oxford Handbook of CSR*. Oxford, UK: Oxford University Press. 121.
[37] *Corporate Social Responsibility Branding Survey*. Publication. Penn Schoen Berland, 2010.

is whether the increase in revenue covers the increase in cost of CSR implementation in the long-run.

Customer base is also potentially increased with CSP, which generates increases in sales. In 2010, Cone Communications surveyed 1,057 US consumers and found that "80% are likely to switch brands, similar in price and quality, to one that supports a cause."[38] Referring back to Maslow's Hierarchy of Needs theory, consumers want more from a corporation than a product; they derive self-concept from their membership in social groups. What a person chooses to consume affects his/her identity, so consumers can improve their own identity and reputation by identifying with a corporation's commitment to CSR initiatives. By giving consumers more of a reason to identify with a reputable brand, corporations can benefit with an increase in market share, and ultimately a boost in sales revenue. However, one limitation is that the implementation of CSR initiatives may be coupled with increased prices, so customer base can potentially decrease if less people are willing to buy the products at a premium, despite the added value of CSR programs.

Increased Ability to Attract Better Employees

Corporations with CSR programs have a competitive advantage because they attract better employees. There is empirical evidence behind this claim (Backhaus, 2002). The study explored the relation between CSP and employer attractiveness. Using a quasi-experimental design, 297 undergraduate business student participants were first asked to rate companies based on what they already knew about the company. They were then

[38] *2010 Cone Cause Evolution Study*. Cone Communications, 2010.

asked to rate the same companies again after learning more about their CSR programs. Bias was controlled with a test-retest, and gender and student status were also controlled. Results indicated that that "job seekers consider CSR records important at all stages of the job search, but most important when determining whether to take a job offer."[39] Thus, companies with CSR programs attain competitive advantage by receiving the benefit of attracting a larger pool of employees to select from. Not only do employers benefit from a larger pool of employees, but CSR programs help improve employee relations once they sign on the new employees. When employees see that their employer is committed to human rights and corporate governance issues, or committed to ensuring their employees work in fair conditions, employee morale increases. This leads to increased productivity in the long-run, and ultimately to improved financial performance.

Decreased Operating Costs

One argument against CSR programs is it is an increase in cost and thus clashes with the objective of a business. However, this is a short-term focus, and when implemented correctly, CSR programs can actually decrease operating costs in the long run. When combined with the other many bottom-line financial benefits of CSR programs, the effect seems to be greater than the increase in cost of CSR implementation. One example of a strong cost-reducing CSR program is a sustainability effort from Herman Miller in 1991. The company built an $11 million energy-saving and pollution reducing heating and cooling plant—acting in excess of the current environmental laws— and "saved $750,000

[39] Backhaus, K. B., Stone, B. A. and Heiner, K. (2002). Exploring the relationship between corporate social performance and employer attractiveness. *Business and Society, 41*:3, 292-318.

per year in fuel and landfill costs."[40] In the long-run, it would only take 15 years for the cost of the plant to be covered by the savings in energy costs, with the additional benefits of improved corporate reputation and environmental condition for building the plant.

Reduced Business Risk

"Reputation is the strongest determinant of any corporation's sustainability. Stock price can always come back. Business strategies can always be changed. But when an organization's reputation is gravely injured, its recovery is difficult, long-term, and uncertain. A risk to its reputation is a threat to the survival of the enterprise."[41] – Peter J. Firestein

Peter Firestein acknowledges that the stronger a company's reputation, the lower the business risk, and this claim is supported by a meta-analytical study conducted by Orlitzky and Benjamin in 2001.[42] Corporate culture culminates from the actions of top executives, and reputation is developed through the values of trust, credibility, reliability, quality, and consistency. If top executives allow unethical or negligent behavior, this will affect the company's reputation in the long run. For example, consider a small business that sells motorcycle parts. The employees of this business all have motorcycles, and it is a common practice for management to allow certain employees to take parts they need for their personal motorcycles. A new employee, in response, may feel it is acceptable to take parts for himself/herself and close friends. The leniency of management, in turn, created a culture of theft and disrespect for company assets. However, corporate culture can become rooted in ethical practices when management partakes in CSR strategies.

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[40] Hartley, Robert F. *Management Mistakes and Successes*. Hoboken, NJ: Wiley, 2011. 37.

[41] Firestein, Peter J. "Building and Protecting Corporate Reputation." *Strategy & Leadership* 34.4 (2006): 26.

[42] Orlitzky, M., & Benjamin, J. D. (2001). Corporate social performance and firm risk: A meta-analytic review.

When management creates a culture that emphasizes a strong commitment to transparency and ethical business practices, the risk of negligent practices are reduced, as well as risk of lawsuits.

Companies that do not link a comprehensive CSR program with risk management "can leave a company vulnerable, with no appropriate controls or countermeasures."[43] In 1996, the reputation of Nike was in question when a New York Times column accused the company of an unethical profitability strategy: using sweatshops for manufacturing to reduce operating costs.[44] In response, Nike began incorporating spot audits into its business, hiring accounting firms to give stakeholders assurance that Nike's global employees worked in satisfactory labor conditions. However, this proved to be insufficient when Nike failed some spot audits and labor activists continued striking. In response, Nike developed a CSR program that incorporated labor issues and the opinions of stakeholders. The programs focused on the development of labor standards, and through the "Global Alliance for Workers and Communities, Nike interviewed 9,000 young workers in their Indonesian suppliers about their needs."[45] This example illustrates not only that CSR programs help improve a company's reputation, but can also help reduce business risk. Specifically, the risk of losing stakeholder loyalty for committing unethical labor practices. However, Nike began to mend their relationship with stakeholders by integrating their opinions into the new CSR strategies. This example also

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[43] Beth Kytle and John G. Ruggie, *Corporate Responsibility as Risk Management: A Model for Multinationals,* Corporate Social Responsibility Initiative, Kennedy School of Government, March 2005, 14

[44] Greenhouse, Steven. "Nike Shoe Plant in Vietnam Is Called Unsafe for Workers." *Nike Shoe Plant in Vietnam Is Called Unsafe for Workers* 8 Nov. 1997.

[45] Beth Kytle and John G. Ruggie, 14

highlights that companies reap the full economic benefits of CSR strategies when the programs are integrated with core business functions and the interests of stakeholders.

CHAPTER 3: HYPOTHESIS

While there is an abundance of research on CSP and CFP, no study has examined the most recent years (2001-2005) and looked specifically at CSP's impact on difference measures of sales. Based on the analysis for each of the three possible associations in the Literature Review, there is stronger support for a positive association between CSP and financial performance. Accordingly, I structure my hypothesis to support a positive association between CSP and sales measures:

Hypothesis 1(a): Improved CSR performance leads to an increase in sales.

Hypothesis 1(b): Improved CSR performance leads to an increase in gross margin.

Prior studies suggest that firms reap a financial benefit (specifically, an increase in ROA) from engaging in CSR programs (Allouche and Laroche, 2005; Goll and Rasheed, 2004; Orlitzky, 2003). Orlitzky *et al* (2003) argued that another economic benefit of CSR programs is an increase in revenue. As discussed in Section 2.3.1, studies have shown that CSR initiatives lead to an increase in customer base because customers are willing to switch brands for a company that supports a cause, which translates into increases in revenue. In addition, customers build self-identity through consumption choices, and will switch to brands with effective CSR initiatives to enhance their self-identities. Even if companies decide to increase prices of products/services to offset the cost increase of CSR implementation in the short-run, I propose that the cost of the premium is less than the added value of the CSR programs to consumers, and thus consumers are still willing to switch brands and customer base increases. Since I assume in this study that increases in CSR expenditures leads to increased CSP, I propose that improved CSP leads to increases in sales (Hypothesis 1a).

Referring back to "Increased Sales" in Section 2.3.1, the Burson-Marsteller study supported Orlitzky's notion, finding that "American consumers are willing to pay a premium for goods from socially responsible companies."[46] A reason behind this finding is that consumers find a value from the program that makes the cost increase seem trivial. This fact hints that corporations with effective CSR programs also experience an increase in gross margin, holding cost of goods constant, and Hypothesis 1(b) is supported by this claim.

If results indicate that CSP positively impacts sales measures, it must be investigated why this happens so companies can create sales strategies to maximize the impact. An increase in sales would suggest that CSR programs help increase customer base because more customers are willing to switch brands to buy the products or services of a socially responsible firm. An increase in gross margin, on the other hand, would indicate that some customers are willing to pay a higher price for the products or services of companies with effective CSR programs.

[46] *Corporate Social Responsibility Branding Survey*. Publication. Penn Schoen Berland, 2010.

CHAPTER 4: METHODOLOGY

4.1 Data Sources

4.1.1 Measuring Financial Performance

Both hypotheses involve analyzing the impact CSP has on two financial variables: sales and gross margin. I will measure sales two ways: total sales to total assets ratio and total sales to number of employees ratio. I scale total sales in order to receive a more reliable conclusion. Second, I measure gross margin as the gross profit to total sales ratio. However, before I can justifiably test my hypotheses, I replicate my data with the methodology used by a previous study concerning CSP and financial performance to ensure CSP has a significant relation with CFP. Most previous literature and empirical studies use accounting data to measure financial performance, as opposed to market-based measures (Waddock and Graves, 1997; Simpson and Kohres, 2002). The three most used measurements for financial performance are return on assets (ROA), return on sales (ROS), and return on equity (ROE). To parallel the majority of studies, this study will focus on accounting-based measures of CFP and define financial performance as return on assets (ROA). Based on a Harvard Business Review article, the best way to measure company performance is ROA because "ROA explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust returns on sales."[47] Implications for analyzing CFP based on accounting measures include the

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[47] John Hagel, III, and John Seely Brown. "HBR Blog Network." *Harvard Business Review*. 4 Mar. 2010. Web. 06 Oct. 2012. <http://blogs.hbr.org/bigshift/2010/03/the-best-way-to-measure-compan.html>.

possibility of distortions from inflation (Demsetz and Villalonga, 2001) and bias from differences in accounting methods across corporations. However, ROA is the accounting variable least likely to be manipulated (Yoshikawa and Phan, 2003). I will measure ROA as net income divided by total assets. The source of the financial data is the COMPUSTAT database.

4.1.2 Measuring Corporate Social Performance

One central explanation for the ambiguity in the relationship between CSP and financial performance is the problem in measuring CSP. Past studies have used a wide variety of methods to measure CSP: self-constructed surveys (Aupperle, 1991), The *Fortune reputation survey* (Brown and Perry, 1994), the Dow Jones Sustainability Index (Lopez *et al.*, 2007), CRO's *Best Corporate Citizens* (Wallace *et al.*, 2009), and the KLD Index developed by Kinder, Lydenberg, Domini and Co (Waddock and Graves, 1997; Hull and Rothensberg, 2008). CSP is very multidimensional because it is comprised of both internal (governance, employees, etc.) and external (environmental and community impact) factors that must be considered when measuring CSP. The CSP measurement that incorporates these measures the best to account for the complexity of CSR initiatives is the KLD Index, which was changed to the MSCI ESG (Environmental, Social, and Governance) Index in 2011 after a change of data ownership from KLD to MSCI Inc. For this reason, this study will use the MSCI Index to measure CSP.

Launched in 1990 and created by the firm Kinder, Lydenberg, and Domini, the MSCI ESG Index is one of the earliest tools for evaluating CSR performance, as well as one of the most widely used and accepted CSP measurement. MSCI rates companies on seven attributes—environment, community, human rights, employee relationships, diversity, product, and governance—through a binary system. If the corporation meets the criteria, it scores a "1." Otherwise, it scores a "0." The sources it uses to assign the binary codes include corporate data sources (annual reports, CSR reports, 10K forms, etc.), CSR questionnaires from corporations' investor relations office, external surveys, and general press from news sources.[48]

One common criticism of CSR programs is that companies implement them to distract stakeholders from their unethical acts. The MSCI Index controls for this criticism by analyzing both the strengths and concerns of a corporation's CSR program in each attribute. The data weighs not only what the company does well in regards to CSR, but ways it negatively affects each attribute as well. Thus, I determine a company's total CSP score for a year by summing all the strengths from the seven attributes and subtracting it by the sum of all the concerns from the seven attributes.

To avoid negative CSP scores, I scale absolute MSGI scores with 100 as a base. Any score under 100 means the company has more CSR weaknesses than strengths. Any scores above 100 means the company's CSR strengths outweigh its weaknesses.

4.2 Population and Sample

This study covers 333 firms included in the S&P 500 for the years 2001-2005. See Appendix 1 for the name, ticker, and industry of each of the 333 firms in the sample. I assume my tests incorporate the long-term benefits of CSR implementation because most

[48]Waddock, S.A., & Graves, S.B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, 18 (4), 308

of the firms tested have had some sort of CSR program since 2001. 167 firms in the S&P 500 were not included due to missing CSP or financial data for any of the years 2001, 2002, 2003, 2004, or 2005. In addition, I winsorized the data to the 1st and 9th percentile to minimize the effect of extreme observations. The table below outlines my sample selection procedure.

Missing Data	**No. Companies Omitted**	**Additional Note**
CSP data for any of the 5 years	119	Missing
Number of employees = 0	33	Made sales ratio an infinite number
Revenue = $0	7	Made gross margin an infinite number
Negative Revenue	3	Not possible
Negative Cost of Goods Sold	5	Skewed gross margin numbers
Total Companies Omitted	**167**	

4.3 Dependent, Independent, and Control Variables

Hypothesis 1(a) looks at CSP as the independent variable and sales as the dependent variable. Sales will be measured two ways: sales divided by total number of employees and sales divided by total assets. Hypothesis 1(b) uses CSP as the independent variable and gross margin as the dependent variable. Past studies suggest that size, risk, and industry affect both firm financial performance and CSR (Ullman, 1985; McWilliams, A., and D. Siegel, 2000), so each of these variables are controlled for in this study. Size is an important control variable because as firms grow, they have more resources to dedicate to CSR programs than smaller firms. According to Udayasankar (2007), the smaller the firm, the less likely they are to participate in CSR programs "given their smaller scale of operations, resource access constraints and lower visibility."[49] Thus, I control for size because I assume that the larger the firm, the more resources it can devote to CSR initiatives. In addition to better access to resources, larger firms have more visibility with the public because they have larger advertising and marketing budgets.

Industry also needs to be controlled for given the differences in stakeholder interest and industry-specified CSR concerns (Waddock and Graves, 1997). As seen in Table 1 below, there is a variation in average CSP scores, hinting CSR strengths and concerns differ across industry, and thus must be controlled for to prevent unclear results. Lastly, the risk tolerance of management needs to be controlled for since it influences decision making. For this study, company size is measured using total assets, number of employees, and total sales. Refer to Table 1 to see the range of Standard Industrial Classification (SIC) codes that make up each industry. Industry is measured through dummy variables for each industry. Lastly, risk is measured using long-term debt to total assets ratio.

CHAPTER 5: RESULTS

Table 1 provides a listing of all the industries that compose the 333 firms in the sample, the SIC code range of each industry, and the average CSP score for each industry. Since CSP scores were scaled with a base of 100, any score below a 100 means the industry has more CSR weaknesses than strengths. As can be seen in Table 1, CSP scores differ across industries. It is interesting to note that only 4 out of the 13 industries

[49] Udayasankar, Krishna, Corporate Social Responsibility and Firm Size (2007). Journal of Business Ethics, 2007. Available at SSRN: http://ssrn.com/abstract=1262535

have CSP average scores with strengths that outweigh weaknesses (forest products/paper/publishing, chemicals/pharmaceuticals, bank/financial services, and hotel/entertainment). The Waddock and Graves (1997) study found similar results, finding only 4 industries with averages above a score of 100. The three worst scoring industries in this study were mining/construction, telephone/utilities, and hospital management. The Waddock and Graves (1997) study found that the worst scoring industries were mining/construction, refining/rubber/plastic, and chemicals/pharmaceuticals. This suggests that some industries have improved their CSR initiatives in the past decade, whereas other industries have worsened. Overall, Table 1 indicates that importance of controlling for industry in this study. Table 2 gives the descriptive statistics for the CSP and financial variables used in the study. Note that Table 2 provides the winsorized data.

Table 1. Industries in sample

Industry	SIC Code	N	CSP score	Min.	Max.
Mining, Construction	100-1999	16	96.4	89	101
Food, textiles, apparel	2000-2390	16	99.1	93	106
Forest products, paper, publishing	2391-2780	17	100.6	98	105
Chemicals, pharmaceuticals	2781-2890	32	100.2	94	107
Refining, rubber, plastic	2891-3199	6	99.0	93	105
Containers, steel, heavy mfg.	3200-3569	18	99.3	95	104
Computers, autos, aerospace	3570-3990	68	99.9	94	107
Transportation	3991-4731	6	99.7	96	107
Telephone, utilities	4732-4991	37	98.1	91	104
Wholesale, retail	4992-5990	36	99.6	94	104
Bank, financial services	6150-6700	43	101.0	96	106
Hotel, entertainment	6800-8051	32	100.7	96	106
Hospital Management	8052-8744	6	98.7	93	103

Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min.	Max.
CSP	333	99.9	3.12	91	108
ROA	333	0.04	0.12	-1.62	0.39
Debt/Assets ratio	333	0.19	0.13	0.00	0.63
Total Assets	333	39736.35 M$	119698.30 M$	38.66	1278162
No. Employees	333	53.49 thous	105.46 thous	0.076	1556.6
Total Sales	333	15547.07 M$	28383.77 M$	41.71	264086
Gross Margin	333	0.41	0.22	0.04	0.97
Sales/Assets	333	0.86	0.68	0.05	4.10
Sales/Employees	333	$426.41/per empl.	$435.95/per empl.	11.88	3136.68

5.1 Replication of Prior Research

Before I can justly break financial performance down into sales and gross margin, I must first test the relation between CSP and financial performance (defined as ROA in the study). If I find a significant relation between the two variables, I can justifiably move on to test Hypothesis 1(a) and 1(b). Therefore, I test my data with the two hypotheses posited in prior research conducted by Waddock and Graves (1997):

Hypothesis 1: Better financial performance results in improved CSR.

Hypothesis 2: CSR performance results in improved financial performance.

Appendix 2 shows the results from the Waddock and Graves (1997) study. The study analyzed CSP and financial data from 1989-1990 of 469 companies from the S&P 500. Similar to this study, CSP was measured using the KLD (MSCI) data. Comparing Table 3(a) with Table 4(a) in Appendix 2 and Table 3(b) with Table 4(b), it is seen that correlation results are very similar and both test the same variables. Regardless of which of the two variable is lagged, CSP and ROA have a significant positive correlation at the $p < 0.001$ level, as can be seen in Table 3(a) and 3(b).

Table 3(a). Correlation matrices: Correlations with 2001-2005 CSP data with one-year lagged financial data and financial controls (Hypothesis 1)

	CSP $_t$	**ROA $_{t-1}$**	**Assets $_{t-1}$**	**LD/A $_{t-1}$**	**No. empl. $_{t-1}$**	**Sales $_{t-1}$**
CSP $_t$	1.00					
ROA $_{t-1}$	0.13***	1.00				
Assets $_{t-1}$	0.12***	-0.03	1.00			
LD/A $_{t-1}$	-0.21***	-0.11***	-0.08*	1.00		
No. empl. $_{t-1}$	-0.04	0.04	0.26***	0.06^{+}	1.00	
Sales $_{t-1}$	-0.06^{+}	0.04	0.48***	-0.00	0.72***	1.00

$^{+}p \leq 0.1$; $^{*}p \leq 0.05$; $^{**}p \leq 0.01$; $^{***}p \leq 0.001$

Table 3(b). Correlation matrices: Correlations with 2001-2005 financial data with one-year lagged CSP data and financial controls (Hypothesis 2)

	ROA $_t$	**CSP $_{t-1}$**	**Assets $_{t-1}$**	**LD/A $_{t-1}$**	**No.empl. $_{t-1}$**	**Sales $_{t-1}$**
ROA $_t$	1.00					
CSP $_{t-1}$	0.15***	1.00				
Assets $_{t-1}$	-0.12***	0.09**	1.00			
LD/A $_{t-1}$	-0.20***	-0.19***	-0.08*	1.00		
No. empl. $_{t-1}$	0.02	-0.06^{+}	0.26***	0.06^{+}	1.00	
Sales $_{t-1}$	0.02	-0.08**	0.48***	-0.00	0.73***	1.00

$^{+}p \leq 0.1$; $^{*}p \leq 0.05$; $^{**}p \leq 0.01$; $^{***}p \leq 0.001$

Moving on to the regressions, compare Table 7(a) with Table 5 in Appendix 2 and Table 7(b) with Table 6. First, my findings in Table 7(a) compare to the 1997 findings because both found significantly positive results between CSP and ROA at the $p < 0.001$ level. Second, my findings in Table 7(b) compare to the 1997 findings because both found significantly positive results between CSP and ROA at the $p < 0.01$ or $p < 0.001$ level. Note that the R^2 values of both studies, which measures the extent to which the independent variables can predict the dependent variable, are almost identical. Industry data is omitted for the sake of space.

Table 7 regressions and the Waddock and Graves (1997) study try to assess whether CSP is linked to financial performance, and in what direction the relationship exists. Table 7(a) results indicate financial performance has a significant positive relationship with CSP at the $p < 0.001$ level when CSP is the dependent variable, illuminating that the more resources a company has, the more effective their CSR programs become. These results support the first hypothesis of the Waddock and Graves (1997) study, which posits that better financial performance results in improved CSR performance. Model 1 shows that the control variables are significantly related, and a one unit increase in ROA leads to an improvement in CSP by 1.90 base points. These results also support the slack resources theory, which posits that firms with stronger financial performance are willing to invest more into CSR strategies.[50] This theory helps to explain the large increase in firm investments in CSR over the past decade because they are investing their returns into the programs, ultimately illuminating that executives' perception of such policies has shifted from an unnecessary addition to a critical business function. These results assume that increased CSR spending leads to an increase in CSR performance. I will explain later that this is not always the case, however, and I will explain what companies can do to ensure this assumption holds true in their business models.

[50] Waddock, S.A., & Graves, S.B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, 18 (4), 306

Table 7(a). Regression analysis with 2001-2005 CSR data with one-year lagged financial data and financial controls (Hypothesis 1)

Dependent variable: CSR	**Model 1**	**Model 2**	**Model 3**
Independent variable: ROA	1.90***	1.87***	1.85***
Control variables			
Long-Term Debt/Total Assets	-2.15***	-2.17***	-2.29***
Total Sales	-4.75E-6*		
Total Assets		2.43E-6**	
Number of Employees			-1.93E-3
Observations	1332	1332	1332
R^2	0.15	0.15	0.15

$^{+}p \leq 0.1$; $*p \leq 0.05$; $**p \leq 0.01$; $***p \leq 0.001$

The regression results for Table 7(b) indicate that CSR performance has a significant positive relationship with financial performance at the $p < 0.001$ level, and thus support the second hypothesis proposed by Waddock and Graves (1997). As can be seen in Model 2, an increase in CSR by 10 base points leads to a .5% in increase in ROA. Comparing Table 7(b) to Table 6 in Appendix 2, it is interesting to note that in the past decade, an increase in CSR leads to a larger increase in ROA. Scaling the Waddock and Graves (1997) CSP scores by 100 like this study, it found that a one unit increase in CSR leads to a .02% increase in ROA, whereas this study found it increases ROA by .5%. It can be shown in this regression that CSR initiatives are becoming more rewarding not only for stakeholders, but for the economic prosperity of corporations.

Table 7(b). Regression analysis with 2001-2005 financial data with one-year lagged CSR data and financial controls (Hypothesis 2)

Dependent variable: ROA	**Model 1**	**Model 2**	**Model 3**
Independent variable: CSR	.005***	.005***	.005***
Control variables			
Long-Term Debt/Total Assets	-0.06*	-0.06*	-0.06*
Total Sales	1.35E-7		
Total Assets		-2.57E-8	
Number of Employees			1.10E-5
Observations	1332	1332	1332
R^2	0.07	0.07	0.07

$^{+}p \leq 0.1$; $*p \leq 0.05$; $**p \leq 0.01$; $***p \leq 0.001$

Why does an increase in CSR performance lead to increased financial performance? Here, financial performance is defined as return on assets. I have outlined the possible reasons for these results in Section 2.3.1. First, CSR programs have become a competitive advantage because they improve corporate reputation. On top of enhanced reputation, corporations benefit from increased customer and investor loyalty. Third, CSR programs give employers an enhanced ability to attract better employees, ability to increase employee morale, and increase productivity. Fourth, CSR initiatives help to decrease operating costs in the long-run. And lastly, CSR programs help to reduce a corporation's risk (ie. bribery, corruption, having to recall products, and pay fines) because CSR programs help build transparency, foster an ethical culture, and improve the attitude of stakeholders towards the corporation. For now, I have excluded the sixth benefit from CSR—an increase in sales—because my results indicate otherwise. Later in the paper, however, I will discuss how firms can structure sales strategies to create increases in sales from CSR programs.

5.2 Tests of Hypotheses 1(a) and 1(b)

Now that it is shown my research supports the previous finding that CSP and CFP are positively, correlated, I can test the impact of CSP on CFP by breaking ROA down into two financial variables: sales and gross margin. I will do this by testing Hypotheses 1(a) and 1(b). Table 8 provides the correlation matrices for the key variables tested in Hypothesis 1(a) with the one-year lagged CSR data and control variables. Industry data is omitted for the sake of space. The test measures total sales it two ways: first using the sales to total assets ratio and second, the sales to total number of employees ratio. The sales ratios are the dependent variables and CSP is the independent variable. Note first that CSR performance and sales to assets are negatively correlated at the $p < 0.05$ level, while CSR performance and sales to employees are negatively correlated at the $p < 0.001$ level. However, it is interesting to note that both dependent sales variables are not highly correlated with CSP.

Table 8 also shows correlations for the key variables tested in Hypothesis 1(b) with the one-year lagged CSP data and control variables. This test treated gross margin as the dependent variable and CSP as the independent variable. Note that gross margin and CSR performance are significantly and positively correlated at the $p < 0.001$ level and the correlation is strong. Lastly, note that for both correlation matrices, CSP, sales, and gross margin have significant correlations with each control variable (with the exception of the correlation between sales/employees and long-term debt ratio).

Table 8. Correlation matrices: Correlations with 2001-2005 financial data with one-year lagged CSR data and financial controls

	Sales/A $_t$	**S/Emp $_t$**	**GM $_t$**	**CSP $_{t-1}$**	**TA $_{t-1}$**	**LD/A $_{t-1}$**	**Emp. $_{t-1}$**	**Sales $_{t-1}$**
Sales/A $_t$	1.00							
S/Emp $_t$	.09***	1.00						
GM $_t$	-.33***	-.13***	1.00					
CSP $_{t-1}$	-0.06*	-0.13***	0.30***	1.00				
A $_{t-1}$	-0.25***	0.09***	0.05*	0.07**	1.00			
LD/A $_{t-1}$	-0.09**	1.5E-3	-0.23***	-0.18***	-0.08**	1.00		
Emp. $_{t-1}$	0.24***	-0.21***	-0.13***	-0.07*	0.41***	0.09***	1.00	
Sales $_{t-1}$	0.18***	0.24***	-0.17***	-0.09***	0.58***	-1.9E-3	0.70***	1.00

$^{+}p \leq 0.1$; $*p \leq 0.05$; $**p \leq 0.01$; $***p \leq 0.001$

Variable Key

Sales/A	**S/Emp**	**GM**	**CSP**	**TA**	**LD/A**	**Emp.**	**Sales**
Sales/Total Assets	Sales/No. of Employees	Gross margin	CSP score	Total Assets	Long term debt/Total Assets	No. of Employees	Total sales

Complementing the Waddock and Graves (1997) study, time series regression analysis was used to test both hypotheses, all of which use CSP as the independent variable and controlling for size, risk, and industry. In the interest of space, industry controls have been omitted from the tables. Table 9 presents models that use a one-year lag for CSP data and control variables to analyze whether CSP has an impact on sales. Models 1-3 use sales/assets as the measure for sales and Models 4-6 use sales/no. of employees. The reason for scaling sales is to provide more informative and controlled results. As can be seen in Table 9, Models 1-3, each of the models show sales/assets has a significant negative relationship with CSP at either the $p < 0.05$ (Model 1) or $p < 0.01$ level (Models 2 and 3). Looking at Model 2, an increase in 10 base points of CSP (ie. from a score of 94 to 104) leads to a 1.2% decrease in sales for every dollar in assets.

Models 1-3 also show that long-term debt to assets ratio (risk control) is negatively significant at the $p < 0.001$ level. Two of the three control variables for size (assets and sales) are significant at the $p < 0.001$ level.

Models 4-6 in Table 9 test the ratio sales/employees as the measure for sales. All three of these models show that the sales/employees variable has a significant negative relationship with CSP either at the $p < 0.01$ (Models 4 and 5) or $p < 0.001$ level (Model 6). Risk shows no significant relationship in any of these models—its sign is negative in all three cases, though. Size and number of employees are the controls for size and both have a significant relationship at the $p < 0.001$ level. Total assets show no significant relationship with sales/employees. Looking at Model 4, an increase in 10 basis points in CSP leads to a decrease in $10.42 of sales per employee in a year. The results for both regressions in Table 9, therefore, strongly oppose Hypothesis 1(a), which posits that improved CSR performance leads to increases in sales.

Table 9. Regression analysis with 2001-2005 financial data with one-year lagged CSR data and financial controls (size, industry, risk)

Dependent variable: Sales/Assets	**Model 1**	**Model 2**	**Model 3**
Independent variable: CSP	-.010*	-.012**	-.012**
Control variables			
Long-Term Debt/Total Assets	-0.48***	-0.47***	-0.50***
Total Sales	1.86E-6***		
Total Assets		-7.21E-7***	
Number of Employees			4.70E-4
Observations	1332	1332	1332
R^2	0.53	0.53	0.53
Dependent variable: Sales/Employees	**Model 4**	**Model 5**	**Model 6**
Independent variable: CSP	-10.42**	-13.72**	-15.16***
Control variables			
Long-Term Debt/Total Assets	-161.08$^+$	-159.30$^+$	-120.34
Total Sales	3.45E-3***		
Total Assets		-1.07E-5	
Number of Employees			-0.63***
Observations	1332	1332	1332
R^2	0.22	0.18	0.20

$^+p \leq 0.1$; $*p \leq 0.05$; $**p \leq 0.01$; $***p \leq 0.001$

Hypothesis 1(b) proposes that improved CSR performance leads to an increase in gross margin. Using a one-year lag for CSR data for the years 2001-2005, I performed a time-series regression analysis (Table 10) using gross margin as the dependent variable, CSR performance as the independent variable, and controlling for risk, size, and industry. Again, in the interest of space, industry data has been omitted from the table. As can be seen in Table 10, the results strongly support Hypothesis 1(b). All three models show that gross margin has a significant positive relationship with CSP at the $p < 0.001$ level. Risk is negatively related to CSR at a significant $p < 0.001$ level in all models. The size effect is significantly negative in Models 1 and 3. Looking at Model 1, an increase of 10 base points in CSP leads to a 2% increase in gross margin the following year.

Table 10. Regression analysis with 2001-2005 financial data with one-year lagged CSR data and financial controls (size, industry, risk)

Dependent variable: Gross Margin	**Model 1**	**Model 2**	**Model 3**
Independent variable: CSR	.02***	.02***	.02***
Control variables			
Long-Term Debt/Total Assets	-0.24***	-0.24***	-0.23***
Total Sales	-8.96E-7***		
Total Assets		5.06E-8	
Number of Employees			-1.42E-4*
Observations	1332	1332	1332
R^2	0.25	0.24	0.24

$^+p \leq 0.1$; $*p \leq 0.05$; $**p \leq 0.01$; $***p \leq 0.001$

CHAPTER 6: DISCUSSION AND CONCLUSION

6.1 CSP and Gross Margin

My results support Hypothesis 1(b) that improved CSR performance leads to an increase in gross margin. This result suggests that some customers are willing to pay a higher price for the products and/or services of companies with effective CSR programs. Many firms accompany increases in CSR investments with increases in their price of products/services. They do this to cover the cost of the expenditures and believe consumers will find more value in the CSR programs than the addition cost of the product. So, executives can be comforted by the evidence that some customers will accept the premium if the firm engages in CSR initiatives. Referring back to Section 2.3.1, the Burson-Marsteller study found that "American consumers are willing to pay a premium for goods from socially responsible companies."[51] This can be explained by Maslow's Hierarchy of Needs. CSR improves customer loyalty because their sense of belonging to a firm strengthens when a customer's interest in social and environmental issues is supported and complemented with their consumer decisions. When customer loyalty strengthens, customers are less likely to switch brands when the product's price increases since it is justified by the increase in commitment to the CSR initiatives the customer supports. An additional reason customers are willing to pay a premium for goods from socially responsible firms is because their personal reputation is enhanced. A firm can benefit economically from this reason because the added value of a reputation boost outweighs the premium. Take Nike's LIVESTRONG initiative to fund cancer research by selling the yellow wristbands, for example. Consumers pay for this wristband because they support cancer research and want other people to know they supported it. Hence, one's perception of a person improves when they see the person wearing a Nike LIVESTRONG band because it means the person makes a positive contribution to the community. Thus, I propose that the gross margin from the sales of LIVESTRONG bands would have increased if Nike increased the cost of the bands from $1 to $1.50 because an extra $.50 cost is worth the increase in personal reputation to consumers. Not only are they buying a product, but a boost in personal reputation.

6.2 CSP and Sales

I find no support for Hypothesis 1(a), indicating that increases in CSR performance lead to a decrease in sales. Results indicate then that some people are less willing to buy the

[51] *Corporate Social Responsibility Branding Survey*. Publication. Penn Schoen Berland, 2010.

product and/or service of companies with higher CSP, and thus firms may experience a decrease in customer base. As explained before, the implementation of many CSR programs are accompanied by increased prices of products/services. So, this result indicates less people are willing to accept the premium, and companies with strengthened CSP sell fewer products. This suggests some consumers either believe the increase in cost of the premium outweighs the benefit from the programs, or do not support the CSR causes. Assuming increases in CSR investments leads to increases in CSP, these results indicate that increases in CSR investments actually decrease, not increase, sales.

6.3 CSP/Sales Strategies

My results as a whole indicate that some customers are willing to pay a higher price for the products/services of socially responsible firms, but that fewer customers are willing to buy the products. Either some consumers don't accept the premium or do not support the CSR programs. However, since replication of prior research conveyed that improved CSP led to improved ROA, and considering ROA can be broken down into sales and gross margins, it can be concluded that firms still reap a financial benefit from CSR implementation. Firms can use the evidence from this study to structure their sales strategies to maximize the benefits of CSR. Here are two specific CSR strategies a company can utilize to boost sales and gross margin:

Strengthen CSR Reporting

The conclusion that CSR investments lead to increases in gross margin conveys that customers find additional value in the CSR programs since they accept a price premium. The added value can include enhanced personal reputation and enhanced sense of belonging to the company and community. Firms, therefore, can maximize the value consumers find in their CSR programs, and thereby expanding the degree of price increase, by strengthening the quality and transparency of their annual CSR reports. Companies should explain to stakeholders in these reports not only what CSR investments they are making, but why they are making those specific investment decisions and how it positively affects both the company and society. Right now, the CSR reports of many firms lack the why and how answers behind their CSR initiatives. Firms must not only describe the CSR programs, but persuade stakeholders why the benefits of such investments override the price increases for every stakeholder. This strategy may increase the capacity of the premium a customer is willing to accept, thereby maximizing the impact CSR programs has on gross margin. In addition, findings of this study suggest improved CSP can lead to decreased customer base because less people are willing to accept the premium. However, CSR reporting can be used to persuade to consumers why the addition in cost of the product/service, in the long run, is greatly outweighed by the benefits the programs can produce to both them and society.

Implement Cause Promotions

In Philip Kotler's book, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*, Kotler highlights five methods for implementing a CSR program: cause promotions, cause-related marketing, social marketing, philanthropy, and volunteering.[52] I believe corporations can take advantage of one of these methods to help

[52] Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken, N.J: Wiley, 2005, 49-206.

boost sales and gross margin: cause-related marketing. Cause-related marketing is when a corporation commits to donating a percentage of revenues to a specific cause based on the amount of sales generated from the product. Most offers are limited to a certain product, cause/organization, and time period. In addition, the offers are dependent on customer participation.

One example of cause-related marketing I discussed earlier is Yoplait's "Save Lids to Save Lives" initiative. The major sales advantage of this initiative is that it is easy for Yoplait to track consumer reactions to the promotion and the precise impact of the program on sales. Yoplait is able to sell the product at a slight premium by engaging in the program. However, one major disadvantage of the program is that customers may not be willing to participate since there is an additional step to buying the product: they must also mail in the lids for the donation to occur. An example of a cause-related marketing strategy I believe to be stronger, or more able to maximize the impact the program has on sales, is the Avon Foundation by Avon, a company that sells beauty related products. Avon donates a percentage of "pink ribbon" products—like jewelry and handbags that have pink ribbons (the breast cancer symbol) on them—purchased to the Avon Foundation and provides funding for breast cancer research. In contrast with the "Save Lids to Save Lives" program, all customers must do for the donation to take place is purchase the product.

The benefits of cause-related marketing programs to the corporation include attracting new customers, building reputation, and increasing product sales. These programs help firms attract more customers because the products sold attract consumers who support the breast cancer cause. If firms effectively advertise the impact of the program on society, they may be able to persuade customers to value such an impact more than the added cost of their product, and thus reap the benefits of sale increases. The programs can also build reputation, which, as mentioned earlier, is vital for long-term growth and profitability. Lastly, the programs can lead to increases in sales as long as the percentage in sales donated is less than the mark up percentage on the product sold. The Avon Foundation has been selling pink ribbons products since 1993, which hints the program positively impacts sales for the corporation.

6.4 Shifting Perceptions of CSR to Corporate Shared Value

At first glance, the results of this study may discourage companies that are price takers—firms that are in highly competitive industries and have little to no pricing power. My results indicate that companies can benefit from CSR programs because increases in CSP lead to a higher gross margin, despite the decrease in sales, because higher CSP enables companies to justifiably increase their prices. However, it seems that price taking companies cannot reap the benefits of CSR since they have no power to increase their prices. I want to urge price taking companies not to dismiss CSR initiatives after reading this study because I will now argue that, despite my results, increased investments in CSR can increase sales in addition to gross margin. What needs to change in order for this to happen, however, are executives' perception of corporate social responsibility to ensure that increases in CSR investments lead to improved CSP.

The central explanation behind my results that increases in CSP lead to decreases in sales is that company executives have not adapted their CSR programs to complement the technological changes from the Information Age and the increase in corporate globalization, and thus are not allocating their CSR investments efficiently. If firms learn to allocate such resources more efficiently, they can maximize the opportunity to increase sales if they minimize the price increases that occurred to offset the cost of CSR implementation. The first CSR initiatives in the United States began during the Industrial Revolution. Without the internet and modern technology of today, corporations and communities were strongly connected. Corporations were physically located in the communities, meaning face-to-face communication was constant and accessible, and thus corporate relationships with the community were strong. However, "as companies have become more global, their connections to communities have weakened."[53] Not only has globalization made it more difficult for stakeholders to trust the decisions of corporations because direct communication is limited, but it has changed how CSR programs needs to be implemented and perceived by executives in order to be effective.

Peter Drucker argued that "the purpose of a business is to create a customer."[54] A customer cannot be created or retained, however, unless the business has a connection with the community to which the customer belongs. Globalization has enabled corporations to reach more customers worldwide, although it has caused its relationships with communities to weaken. I will now argue that integrated CSR programs can not only help corporations reach even more customers, but also help strengthen firms' relationships with the communities to foster long-term economic value to both parties,

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[53] Porter, Michael E. and Jan W. Rivkin (2012). The Looming Challenge to U.S. Competitiveness. *Harvard Business Review*, 7.
[54] Drucker, Peter. *Management: Tasks, Responsibilities, Practices.* Harper & Row, Publishers, Inc. 1973, 57.

and thus solve the problem globalization has created for companies. I argue that companies can do this by expanding their view of CSR from doing good to creating shared value, a view that even Milton Friedman would support. As mentioned earlier in Section 2.1.1, Friedman supports the integration of CSR programs into business operations, but does not support businesses labeling them as social responsibility initiatives. To him, the only responsibility of a business is to create value to shareholders and ultimately the business. Therefore, I argue first that companies must change the title of their programs from corporate social responsibility (CSR) to corporate shared value (CSV). An example of a company who has done so is Nestle, who changed the name of their programs from CSR report to CSV report in 2008.[55] Second, I argue that the change in title must be coupled with a change in how such programs are implemented.

Michael Porter defines corporate shared value (CSV) as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates."[56] Refer back to Section 1.2.1 when CSR was defined and compare this to the definition of CSV: CSV expands beyond CSR by incorporating the idea that the company must also focus on increasing the competitiveness of the firm so it is able to create shared value in the long-run.

Before I advise how companies can implement CSV programs, I must distinguish between CSR and CSV. A CSR view is limited by the belief that doing good and philanthropy is outside of profit maximization and business operations. In contrast, CSV

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[55] *Nestlé Creating Shared Report 2009*.
[56] Porter, Michael E. and Mark R. Kramer (2011). Creating Shared Value. *Harvard Business Review*, 6.

is an expanded view that perceives social initiatives as a core aspect of the business model. Michael Porter argues that companies create economic value by creating social value, not vice versa.[57] The example below, as described a 2010 Harvard Business Review case study, illustrates the narrow focus of CSR and how such a perception can actually negatively impact the business:

In 2011, DM Bicycle Company experienced a large growth in sales. Instead of reinstating employee bonuses to reward employees for their hard work which led to the growth in sales, CEO Gino Duncan decided rather to invest in a CSR program focused on battling Batten disease due to his daughter's battle with the disease. This new program would replace the old CSR program, Ride for Life—which I argue is classified as a CSV program—that sponsored races and all-day biking excursions for the city's school children. Ride for Life had been very successful and raised the morale of employees and had created positive public relations for the company.

Gino's decision to replace the old program was a wrong business strategy for two reasons. First, his decision was unfair to his employees because they didn't receive the full compensation they deserved for their hard work.[58] This negatively affected employee morale, loyalty, and employee retention for the company—all of which are essential to achieve long-term profitability. Second, the new CSR program eroded much of the benefits that came with the Ride for Life program, including attracting new customers, building a stronger relationship with the community, and increasing its reputation. The

[57] Porter, Michael E. and Mark R. Kramer (2011). Creating Shared Value. *Harvard Business Review*, 7.
[58] Raggio, Randle D. *When the CEO's Personal Crusade Drives Decisions.* Case Study. Harvard Business Review, 2010, 1-5.

Ride for Life program was an effective CSV program because it enabled DM Bike Company to advertise their products in the community, while at the same time producing some benefit to the community, thereby building connections with the community. The new program did not produce such benefits for the company. In sum, Gino's narrow view of CSR solely as an opportunity for his company to support a philanthropic cause negatively impacted his company's financial performance. Rather than viewing his program as a CSR initiative and an opportunity to provide economic value to the firm, his new program became external to profit maximization.

The second distinction between CSR and CSV is that an argument against CSR is that such initiatives are created in response to external pressures to fix past negative social impacts, rather than for the purpose of doing good. However, CSV does not receive such criticism because it is clear the purpose behind the initiatives extend beyond merely doing good but also adding shared value to both society and the company necessary to increase the firm's competitiveness in the market. Lastly, CSR is limited by the corporate budget after business operation expenses, whereas CSV is a priority in the budget.

Now I will begin to explain how a corporation can implement an effective CSV program. First, a business must collaborate with a social entrepreneurship to create a hybrid value chain, a partnership that capitalizes on complementary strengths to maximize value and minimize costs. A social entrepreneurship is commonly part of the not-for-profit sector and manages a social venture to create a social change. In contrast with a business, which measures performance based on profitability, a social entrepreneurship measures performance based on the amount of social change from the venture. The strengths social entrepreneurships bring to the hybrid value chain include a solid understanding of the needs of its customers, strong relationships with communities, and provides products at lower costs to the customers in need. The strengths a business brings to the value chain include economies of scale, expertise in supply chain management, and ability to finance the hybrid value chain. A key idea in understanding the hybrid value chain is that it requires that customers pay for a product—as opposed to providing cash/product donations to customers—in order to maintain financial sustainability of the business. The value chain enables the product to be sold at an affordable price to customers, though, so that social change is still attainable. Another benefit of requiring customers pay to a certain extent is that it prevents consumers from becoming dependent on the organization's aid, which causes a decrease in motivation to enhance their personal economic status because they are expected to provide something in return for the product. In other words, the value chain provides motivation for consumers in need to increase their economic status, thereby promoting economic development that leads to social change.

In order to fully grasp the business model of a hybrid value chain, as well as the benefits a CSV program provides both society and businesses, I will use the example of the Grameen-Danone partnership. Grameen Bank, founded in 1983 by Muhammad Yunus, is a microfinance organization and community development bank. Unlike a conventional bank, it does not require collateral on a loan and is built on trust and accountability. Grameen serves the rural poor in Bangladesh and is based on the belief that the skills of the poor are underutilized, but with a little help from the bank, their skills can be used to develop the local economy. Danone is a French food processing business that produces dairy and water products.

In 2006, the two entities joined together to form the social business, Grameen Danone Foods, with the goal of providing nutritious food products to the poor rural children of Bangladesh and employment opportunities for local people. To do this, Danone built dairy plants in Bangladesh to product its yogurt product with added vitamins to fill nutrient deficits of the children, naming it Shokti Doi, or "strength yogurt." The business sells the product to the local communities at a price in which the poorest children can afford it. According to experts, "if a child eats 2 cups of this yogurt per week, and does it for a year, he/she will regain their full health."[59] Through this business, Grameen-Danone created jobs for beggars—every day, they go to the factory, get a batch of supplies, and sell the yogurt in the local village. In addition, Grameen provides beggars with microloans to start their own businesses in the community. The advantage of having local beggars sell the yogurt is they are already connected to the community and people are willing to buy from them since they are no longer begging, or giving nothing in return.

The difference between a business and a social business is that investors do not receive dividends in the social business, but rather create a social dividend for others. Their investments produce company profits, but these profits are reinvested to expand the social business rather than provide returns for investors. The difference between charity (philanthropy) and a social business is when a dollar is given to a charity, the dollar never comes back. In contrast, when a dollar is given to a social business, the dollar has an

[59] "Grameen Danone: a Social Business," YouTube video, 4:36, posted by "kubohemian," May 28, 2010. http://www.youtube.com/watch?v=AV4WQV32ijs.

endless life "because it recycles. It starts moving back and forth, again and again. So you touch many more lives and it continues ever and ever."[60]

Grameen-Danone Foods is a very effective CSV program for Danone because the social business adds social value to the community of Bangladesh, which then adds economic value to Danone. The social business benefits Danone because it has enabled the company to reach a community and customers that would have otherwise been inaccessible. And business has accomplished its social objective of providing nutrition to poor rural children, thereby increasing the children's ability to provide for their families. This increase in social value generates economic value to Danone because a healthier community leads to more productivity and economic development. The community attributes their prosperity and increased economic status to Danone's involvement, and thus becomes very loyal to the business; this ultimately leads to an increase in customer base and sales for Danone. A second social value added from the social business is an increase in employment in the rural communities and affordable food. The social business allows Danone to sell the yogurt at an affordable price—Danone enables the business to sell the products at lower prices because of its ability of economies of scale and Grameen helps provide employment to Danone's manufacturing factories. Danone benefits from increased sales. In sum, I advise companies to invest in social businesses as CSV initiatives because it will enable the company to increase profitability and sales in the long-run since the investments will continue to expand alongside the social business. When the social business grows, the business grows.

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[60] "Grameen Danone: a Social Business," YouTube video, 4:36, posted by "kubohemian," May 28, 2010. http://www.youtube.com/watch?v=AV4WQV32ijs.

6.5 Future Research

There is a substantial amount of research that still needs to be done concerning the link between corporate social responsibility and financial performance. For example, as more reliable data becomes available on CSR, it may be useful to determine whether or not the relationships examined in this study hold over time. The years studied (2001-2005) are pre-recession in the United States, so studying how the recession affected the impact CSR has on financial performance and whether the relationship is stronger after the recession would be valuable information. Additionally, it would be worthwhile to examine lags other than the 1-year lag between each of the five years evaluated in this study because such evidence would help describe how long it takes, on average, for firms to reap the full benefits from CSR investments. Moreover, it may be useful to consider the year in which the CSR programs were implemented when running regressions of CSR data, since previous research has found that the effect of CSR financial performance is negative during the first years of implementation.[61] This research is supported by the idea that CSR initiatives require large investments in the short-run, but produce long-term returns.

Furthermore, the transparency of CSR reporting may be a critical variable because if stakeholders are not aware of the programs a company is engaged in, their attitudes and decisions towards a corporation cannot be influenced. I attempted to measure transparency with MSGI's dummy variable, but the variation was not high enough for

[61] Lopez, M., Garcia, A., & Rodriguez, L. (2007). Sustainable development and corporate performance: A study based on the Dow Jones Sustainability Index. *Journal of Business Ethics,75,* 285–300.

accurate results. Once more reliable data becomes available, controlling for transparency while assessing the CSR-CFP link might strengthen the study's results. A third area still in need of more research is the impact CSR has on financial performance in specific industries. The stakeholders of different industries desire different things, and it would be useful for management to learn how they can structure their programs to complement the interests of their unique stakeholders the best. Lastly, I asserted in Section 2.3.1 that CSR positively impacts financial performance in the long-run because it helps increase the value of intangible assets like reputation and brand value. Thus, once more reliable data to measure such intangible assets becomes available, it may be beneficial to assess how CSR investments increase the value of the assets and ultimately financial performance.

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Appendix 1

	Name	Ticker	Industry
1	Agilent Technologies, Inc.	A	Computers, autos, aerospace
2	Alcoa, Inc.	AA	Containers, steel, heavy mfg.
3	Apple Computer, Inc.	AAPL	Computers, autos, aerospace
4	AmeriSourceBergen Corporation	ABC	Wholesale, retail
5	Abbott Laboratories	ABT	Chemicals, pharmaceuticals
6	Alberto-Culver Company	ACV	Chemicals, pharmaceuticals
7	Adobe Systems Incorporated	ADBE	Hotel, entertainment
8	ADC Telecommunications, Inc.	ADCT	Computers, autos, aerospace
9	Analog Devices, Inc.	ADI	Computers, autos, aerospace
10	Archer-Daniels-Midland Company	ADM	Food, textiles, apparel
11	Automatic Data Processing, Inc.	ADP	Hotel, entertainment
12	Autodesk, Inc.	ADSK	Hotel, entertainment
13	Ameren Corporation	AEE	Telephone, utilities
14	American Electric Power Company, Inc.	AEP	Telephone, utilities
15	AES Corporation	AES	Telephone, utilities
16	Aetna, Inc.	AET	Bank, financial services
17	AFLAC Inc.	AFL	Bank, financial services
18	Allergan, Inc.	AGN	Chemicals, pharmaceuticals
19	American International Group, Inc.	AIG	Bank, financial services
20	Allstate Corporation (The)	ALL	Bank, financial services
21	Applied Materials, Inc.	AMAT	Containers, steel, heavy mfg.
22	Applied Micro Circuits Corporation	AMCC	Computers, autos, aerospace
23	Advanced Micro Devices, Inc.	AMD	Computers, autos, aerospace
24	Amgen Inc.	AMGN	Chemicals, pharmaceuticals
25	Andrew Corporation	ANDW	Containers, steel, heavy mfg.
26	Apache Corporation	APA	Mining, Construction
27	Anadarko Petroleum Corporation	APC	Mining, Construction
28	Air Products & Chemicals, Inc.	APD	Chemicals, pharmaceuticals
29	Ashland Inc.	ASH	Wholesale, retail
30	Allegheny Technologies Incorporated	ATI	Containers, steel, heavy mfg.
31	Avon Products, Inc.	AVP	Chemicals, pharmaceuticals

32	Avery Dennison Corporation	AVY	Forest products, paper, publishing
33	Allied Waste Industries, Inc.	AW	Telephone, utilities
34	American Express Company	AXP	Bank, financial services
35	Allegheny Energy, Inc.	AYE	Telephone, utilities
36	AutoZone, Inc.	AZO	Wholesale, retail
37	Boeing Company	BA	Computers, autos, aerospace
38	Bank of America Corporation	BAC	Bank, financial services
39	Baxter International, Inc.	BAX	Chemicals, pharmaceuticals
40	Bed Bath & Beyond, Inc.	BBBY	Wholesale, retail
41	BB&T Corporation	BBT	Bank, financial services
42	Best Buy Company, Inc.	BBY	Wholesale, retail
43	Brunswick Corporation	BC	Containers, steel, heavy mfg.
44	Black & Decker Corporation	BDK	Containers, steel, heavy mfg.
45	Becton Dickinson and Company	BDX	Computers, autos, aerospace
46	Franklin Resources, Inc.	BEN	Bank, financial services
47	Baker Hughes Inc.	BHI	Containers, steel, heavy mfg.
48	Bank of New York Company, Inc. (The)	BK	Bank, financial services
49	BellSouth Corporation	BLS	Telephone, utilities
50	BMC Software, Inc.	BMC	Hotel, entertainment
51	Bemis Company, Inc.	BMS	Forest products, paper, publishing
52	Bristol-Myers Squibb Company	BMY	Chemicals, pharmaceuticals
53	Bausch & Lomb Incorporated	BOL	Chemicals, pharmaceuticals
54	Boston Scientific Corporation	BSX	Computers, autos, aerospace
55	Citigroup Inc.	C	Bank, financial services
56	Computer Associates International, Inc.	CA	Hotel, entertainment
57	ConAgra Foods, Inc.	CAG	Food, textiles, apparel
58	Cardinal Health, Inc.	CAH	Wholesale, retail
59	Caterpillar Inc.	CAT	Containers, steel, heavy mfg.
60	Chubb Corporation	CB	Bank, financial services
61	Cooper Industries, Inc.	CBE	Computers, autos, aerospace
62	Coca-Cola Enterprises Inc.	CCE	Food, textiles, apparel
63	Carnival Corporation, Inc.	CCL	Transportation
64	Constellation Energy Group	CEG	Telephone, utilities
65	Chiron Corporation	CHIR	Chemicals, pharmaceuticals
66	CIGNA Corporation	CI	Bank, financial services

67	CIENA Corporation	CIEN	Computers, autos, aerospace
68	Cincinnati Financial Corporation	CINF	Bank, financial services
69	Colgate-Palmolive Company	CL	Chemicals, pharmaceuticals
70	Clorox Company	CLX	Chemicals, pharmaceuticals
71	Comerica Incorporated	CMA	Bank, financial services
72	CMS Energy Corporation	CMS	Telephone, utilities
73	Comverse Technology, Inc.	CMVT	Hotel, entertainment
74	Conseco, Inc.	CNC	Bank, financial services
75	Capital One Financial Corporation	COF	Bank, financial services
76	Costco Wholesale Corporation	COST	Wholesale, retail
77	Campbell Soup Company	CPB	Food, textiles, apparel
78	Compuware Corporation	CPWR	Hotel, entertainment
79	Computer Sciences Corporation	CSC	Hotel, entertainment
80	Cisco Systems, Inc.	CSCO	Computers, autos, aerospace
81	CSX Corporation	CSX	Transportation
82	Cintas Corporation	CTAS	Food, textiles, apparel
83	Cooper Tire and Rubber Company	CTB	Refining, rubber, plastic
84	Citrix Systems, Inc.	CTXS	Hotel, entertainment
85	Convergys Corporation	CVG	Hotel, entertainment
86	CVS Corporation	CVS	Wholesale, retail
87	ChevronTexaco Corporation	CVX	Refining, rubber, plastic
88	Dominion Resources, Inc.	D	Telephone, utilities
89	DuPont Company	DD	Chemicals, pharmaceuticals
90	Dillard's, Inc.	DDS	Wholesale, retail
91	Deere & Company	DE	Containers, steel, heavy mfg.
92	Dell Computer Corporation	DELL	Computers, autos, aerospace
93	Dollar General Corporation	DG	Wholesale, retail
94	Danaher Corporation	DHR	Computers, autos, aerospace
95	Disney, Walt Company (The)	DIS	Telephone, utilities
96	Dow Jones & Company	DJ	Forest products, paper, publishing
97	Dow Chemical Company	DOW	Chemicals, pharmaceuticals
98	Darden Restaurants, Inc.	DRI	Wholesale, retail
99	DTE Energy Company	DTE	Telephone, utilities
100	Duke Energy Corporation	DUK	Telephone, utilities
101	Devon Energy Corporation	DVN	Mining, Construction

102	Ecolab Inc.	ECL	Chemicals, pharmaceuticals
103	Consolidated Edison Inc.	ED	Telephone, utilities
104	Equifax Inc.	EFX	Hotel, entertainment
105	Edison International	EIX	Telephone, utilities
106	EMC Corporation	EMC	Computers, autos, aerospace
107	Eastman Chemical Company	EMN	Chemicals, pharmaceuticals
108	Emerson Electric Co.	EMR	Computers, autos, aerospace
109	EOG Resources, Inc.	EOG	Mining, Construction
110	Equity Office Properties Trust	EOP	Hotel, entertainment
111	Eaton Corporation	ETN	Computers, autos, aerospace
112	Entergy Corp.	ETR	Telephone, utilities
113	Exelon Corporation	EXC	Telephone, utilities
114	Ford Motor Company	F	Computers, autos, aerospace
115	Freeport-McMoRan Copper & Gold Inc.	FCX	Mining, Construction
116	Family Dollar Stores	FDO	Wholesale, retail
117	FedEx Corporation	FDX	Transportation
118	FirstEnergy Corporation	FE	Telephone, utilities
119	Fiserv, Inc.	FISV	Hotel, entertainment
120	Fifth Third Bancorp	FITB	Bank, financial services
121	Fluor Corporation	FLR	Mining, Construction
122	Forest Laboratories, Inc.	FRX	Chemicals, pharmaceuticals
123	NICOR Inc.	GAS	Telephone, utilities
124	Gannett Co., Inc.	GCI	Forest products, paper, publishing
125	General Dynamics Corporation	GD	Computers, autos, aerospace
126	Guidant Corporation	GDT	Computers, autos, aerospace
127	Golden West Financial	GDW	Bank, financial services
128	General Electric Company	GE	Hospital Management
129	General Mills Incorporated	GIS	Food, textiles, apparel
130	Corning Incorporated	GLW	Computers, autos, aerospace
131	General Motors Corporation	GM	Computers, autos, aerospace
132	Gap, Inc. (The)	GPS	Wholesale, retail
133	Goodrich Corporation	GR	Computers, autos, aerospace
134	Goodyear Tire & Rubber Co.	GT	Refining, rubber, plastic
135	Gateway, Inc.	GTW	Computers, autos, aerospace
136	Grainger (W.W.), Inc.	GWW	Wholesale, retail
137	Halliburton Company	HAL	Mining, Construction

138	Hasbro, Inc.	HAS	Computers, autos, aerospace
139	Huntington Bancshares, Inc.	HBAN	Bank, financial services
140	HCA Inc.	HCA	Hospital Management
141	Manor Care, Inc.	HCR	Hotel, entertainment
142	Home Depot, Inc.	HD	Wholesale, retail
143	Hartford Financial Services Group (The)	HIG	Bank, financial services
144	Hilton Hotels Corporation	HLT	Hotel, entertainment
145	Health Management Associates, Inc.	HMA	Hospital Management
146	Heinz (H.J.) Company	HNZ	Food, textiles, apparel
147	Honeywell International, Inc.	HON	Computers, autos, aerospace
148	Starwood Hotels and Resorts Worldwide, Inc.	HOT	Hotel, entertainment
149	Hercules Incorporated	HPC	Chemicals, pharmaceuticals
150	Block (H&R), Inc.	HRB	Hotel, entertainment
151	Hershey Foods Corporation	HSY	Food, textiles, apparel
152	Humana Inc.	HUM	Bank, financial services
153	International Business Machines Corporation	IBM	Hotel, entertainment
154	International Game Technology	IGT	Hotel, entertainment
155	Intel Corporation	INTC	Computers, autos, aerospace
156	Intuit, Inc.	INTU	Hotel, entertainment
157	International Paper Company	IP	Forest products, paper, publishing
158	Interpublic Group of Companies, Inc.	IPG	Hotel, entertainment
159	Ingersoll-Rand Company	IR	Containers, steel, heavy mfg.
160	ITT Industries, Inc.	ITT	Containers, steel, heavy mfg.
161	Jabil Circuit, Inc.	JBL	Computers, autos, aerospace
162	Johnson Controls, Inc.	JCI	Forest products, paper, publishing
163	Penney (J.C.) Company, Inc.	JCP	Wholesale, retail
164	JDS Uniphase Corporation	JDSU	Computers, autos, aerospace
165	Johnson & Johnson	JNJ	Chemicals, pharmaceuticals
166	Jones Apparel Group, Inc.	JNY	Food, textiles, apparel
167	Jefferson-Pilot Corporation	JP	Bank, financial services
168	Morgan (J.P.) Chase & Company	JPM	Bank, financial services
169	Nordstrom, Inc.	JWN	Wholesale, retail
170	Kellogg Company	K	Food, textiles, apparel
171	KB Home	KBH	Mining, Construction
172	KeyCorp	KEY	Bank, financial services
173	King Pharmaceuticals, Inc.	KG	Chemicals, pharmaceuticals

174	KLA-Tencor Corporation	KLAC	Computers, autos, aerospace
175	Kimberly-Clark Corporation	KMB	Forest products, paper, publishing
176	Kerr-McGee Corporation	KMG	Chemicals, pharmaceuticals
177	Kinder Morgan, Inc.	KMI	Telephone, utilities
178	Coca-Cola Company	KO	Food, textiles, apparel
179	Kroger Co.	KR	Wholesale, retail
180	Knight Ridder	KRI	Forest products, paper, publishing
181	KeySpan Corporation	KSE	Telephone, utilities
182	Kohl's Corporation	KSS	Wholesale, retail
183	Leggett & Platt, Inc.	LEG	Forest products, paper, publishing
184	Linear Technology Corp.	LLTC	Computers, autos, aerospace
185	Lilly (Eli) and Company	LLY	Chemicals, pharmaceuticals
186	Lockheed Martin Corporation	LMT	Computers, autos, aerospace
187	Lincoln National Corporation	LNC	Bank, financial services
188	Lowe's Companies, Inc.	LOW	Wholesale, retail
189	Louisiana-Pacific Corporation	LPX	Forest products, paper, publishing
190	LSI Logic Corporation	LSI	Computers, autos, aerospace
191	Limited, Inc. (The)	LTD	Wholesale, retail
192	Lucent Technologies, Inc.	LU	Hotel, entertainment
193	Southwest Airlines Co.	LUV	Transportation
194	Lexmark International, Inc.	LXK	Computers, autos, aerospace
195	Marriott International, Inc.	MAR	Hotel, entertainment
196	Masco Corporation	MAS	Containers, steel, heavy mfg.
197	Mattel, Inc.	MAT	Computers, autos, aerospace
198	MBIA Inc.	MBI	Bank, financial services
199	McDonald's Corporation	MCD	Wholesale, retail
200	McKesson Corporation	MCK	Wholesale, retail
201	Moody's Corporation	MCO	Hotel, entertainment
202	Meredith Corporation	MDP	Forest products, paper, publishing
203	Medtronic, Inc.	MDT	Computers, autos, aerospace
204	MedImmune, Inc.	MEDI	Chemicals, pharmaceuticals
205	Metlife, Inc.	MET	Bank, financial services
206	McGraw-Hill Companies, Inc.	MHP	Forest products, paper, publishing
207	Millipore Corporation	MIL	Wholesale, retail

208	Marsh & McLennan Companies, Inc.	MMC	Bank, financial services
209	Minnesota Mining and Manufacturing Company	MMM	Forest products, paper, publishing
210	Philip Morris Companies Inc.	MO	Food, textiles, apparel
211	Merck & Co., Inc.	MRK	Chemicals, pharmaceuticals
212	Marathon Oil Corporation	MRO	Mining, Construction
213	Microsoft Corporation	MSFT	Hotel, entertainment
214	MGIC Investment Corporation	MTG	Bank, financial services
215	Micron Technology, Inc.	MU	Computers, autos, aerospace
216	Maxim Integrated Products, Inc.	MXIM	Computers, autos, aerospace
217	Navistar International Corporation	NAV	Computers, autos, aerospace
218	Nabors Industries, Inc.	NBR	Mining, Construction
219	National City Corporation	NCC	Bank, financial services
220	NCR Corporation	NCR	Computers, autos, aerospace
221	Noble Drilling Corporation	NE	Mining, Construction
222	Newmont Mining Corporation	NEM	Mining, Construction
223	NiSource, Inc.	NI	Telephone, utilities
224	NIKE, Inc.	NKE	Refining, rubber, plastic
225	Northrop Grumman Corporation	NOC	Computers, autos, aerospace
226	Novell, Inc.	NOVL	Hotel, entertainment
227	Norfolk Southern Corporation	NSC	Transportation
228	Network Appliance, Inc.	NTAP	Computers, autos, aerospace
229	Northern Trust Corporation	NTRS	Bank, financial services
230	Nucor Corporation	NUE	Containers, steel, heavy mfg.
231	NVIDIA Corporation	NVDA	Computers, autos, aerospace
232	Novellus Systems, Inc.	NVLS	Containers, steel, heavy mfg.
233	Newell Rubbermaid, Inc.	NWL	Computers, autos, aerospace
234	New York Times Company	NYT	Forest products, paper, publishing
235	Omnicom Group Inc.	OMC	Hotel, entertainment
236	Oracle Corporation	ORCL	Hotel, entertainment
237	Occidental Petroleum Corporation	OXY	Mining, Construction
238	Paychex, Inc.	PAYX	Hospital Management
239	Pepsi Bottling Group, Inc.	PBG	Food, textiles, apparel
240	Pitney Bowes Inc.	PBI	Computers, autos, aerospace
241	PACCAR, Inc.	PCAR	Computers, autos, aerospace
242	PG&E Corporation	PCG	Telephone, utilities

243	Phelps Dodge Corporation	PD	Containers, steel, heavy mfg.
244	Public Service Enterprise Group, Incorporated	PEG	Telephone, utilities
245	PepsiCo, Inc.	PEP	Food, textiles, apparel
246	Pfizer, Inc.	PFE	Chemicals, pharmaceuticals
247	Procter & Gamble Company	PG	Chemicals, pharmaceuticals
248	Progress Energy, Inc.	PGN	Telephone, utilities
249	Progressive Corporation (The)	PGR	Bank, financial services
250	Parker-Hannifin Corporation	PH	Containers, steel, heavy mfg.
251	PerkinElmer, Inc.	PKI	Computers, autos, aerospace
252	PMC-Sierra, Inc.	PMCS	Computers, autos, aerospace
253	Parametric Technology Corporation	PMTC	Hotel, entertainment
254	PNC Financial Services Group	PNC	Bank, financial services
255	Pinnacle West Capital Corporation	PNW	Telephone, utilities
256	PPG Industries, Inc.	PPG	Chemicals, pharmaceuticals
257	PP&L Corporation	PPL	Telephone, utilities
258	Praxair, Inc.	PX	Chemicals, pharmaceuticals
259	Qwest Communications International, Inc.	Q	Telephone, utilities
260	Qualcomm Inc.	QCOM	Computers, autos, aerospace
261	QLogic Corporation	QLGC	Computers, autos, aerospace
262	Ryder System, Inc.	R	Hotel, entertainment
263	Rowan Companies, Inc.	RDC	Mining, Construction
264	Robert Half International, Inc.	RHI	Hotel, entertainment
265	Transocean Sedco Forex, Inc.	RIG	Mining, Construction
266	Rohm and Haas Company	ROH	Chemicals, pharmaceuticals
267	Rockwell International Corporation	ROK	Computers, autos, aerospace
268	RadioShack Corporation	RSH	Wholesale, retail
269	Raytheon Company	RTN	Computers, autos, aerospace
270	Sears, Roebuck and Co.	S	Telephone, utilities
271	Sanmina-SCI Corporation	SANM	Computers, autos, aerospace
272	Starbucks Corporation	SBUX	Wholesale, retail
273	Schering-Plough Corporation	SGP	Chemicals, pharmaceuticals
274	Sigma-Aldrich Corporation	SIAL	Chemicals, pharmaceuticals
275	Schlumberger N.V.	SLB	Mining, Construction
276	USA Education, Inc.	SLM	Bank, financial services
277	Solectron Corporation	SLR	Computers, autos, aerospace

278	Synovus Financial Corp.	SNV	Bank, financial services
279	Southern Company	SO	Telephone, utilities
280	Sempra Energy	SRE	Telephone, utilities
281	SunTrust Banks, Inc.	STI	Bank, financial services
282	St. Jude Medical, Inc.	STJ	Computers, autos, aerospace
283	State Street Corporation	STT	Bank, financial services
284	Sunoco, Inc.	SUN	Refining, rubber, plastic
285	SUPERVALU Inc.	SVU	Wholesale, retail
286	Stanley Works (The)	SWK	Containers, steel, heavy mfg.
287	Safeway Inc.	SWY	Wholesale, retail
288	Stryker Corporation	SYK	Computers, autos, aerospace
289	SYSCO Corporation	SYY	Wholesale, retail
290	AT&T Corp.	T	Telephone, utilities
291	TECO Energy, Inc.	TE	Telephone, utilities
292	Teradyne, Inc.	TER	Computers, autos, aerospace
293	Target Corporation	TGT	Wholesale, retail
294	Tenet Healthcare Corporation	THC	Hospital Management
295	Tiffany & Company	TIF	Wholesale, retail
296	Temple-Inland Inc.	TIN	Forest products, paper, publishing
297	TJX Companies, Inc.	TJX	Wholesale, retail
298	Tellabs, Inc.	TLAB	Computers, autos, aerospace
299	Torchmark Corporation	TMK	Bank, financial services
300	Thermo Electron Corporation	TMO	Computers, autos, aerospace
301	Tribune Company	TRB	Forest products, paper, publishing
302	Texas Instruments Incorporated	TXN	Computers, autos, aerospace
303	Textron Inc.	TXT	Computers, autos, aerospace
304	Tyco International Ltd.	TYC	Hospital Management
305	UnitedHealth Group, Inc.	UNH	Bank, financial services
306	UnumProvident Corp.	UNM	Bank, financial services
307	Union Pacific Corporation	UNP	Transportation
308	U.S. Bancorp	USB	Bank, financial services
309	United Technologies Corporation	UTX	Computers, autos, aerospace
310	Visteon Corporation	VC	Computers, autos, aerospace
311	VF Corporation	VFC	Food, textiles, apparel
312	Verizon Communications	VZ	Telephone, utilities

313	Walgreen Company	WAG	Wholesale, retail
314	Waters Corporation	WAT	Computers, autos, aerospace
315	Wachovia Corporation	WB	Bank, financial services
316	Wendy's International, Inc.	WEN	Wholesale, retail
317	Wells Fargo & Company	WFC	Bank, financial services
318	Whirlpool Corporation	WHR	Computers, autos, aerospace
319	WellPoint Health Networks, Inc.	WLP	Bank, financial services
320	Washington Mutual, Inc.	WM	Telephone, utilities
321	Williams Companies, Inc.	WMB	Telephone, utilities
322	Wal-Mart Stores, Inc.	WMT	Wholesale, retail
323	Watson Pharmaceuticals, Inc.	WPI	Chemicals, pharmaceuticals
324	Wrigley (Wm.) Jr. Company	WWY	Food, textiles, apparel
325	Weyerhaeuser Company	WY	Forest products, paper, publishing
326	USX Corporation	X	Containers, steel, heavy mfg.
327	Xcel Energy, Inc.	XEL	Telephone, utilities
328	Xilinx, Inc.	XLNX	Computers, autos, aerospace
329	Exxon Mobil Corporation	XOM	Refining, rubber, plastic
330	Xerox Corporation	XRX	Computers, autos, aerospace
331	Yahoo! Inc.	YHOO	Hotel, entertainment
332	TRICON Global Restaurants, Inc.	YUM	Wholesale, retail
333	Zimmer Holdings, Inc.	ZMH	Computers, autos, aerospace

Appendix 2

Table 4(a). Correlation matrices: Correlations with 1989 financial data and 1990 CSP

	CSP	ROA	ROE	ROS	LD/A	Sales	Assets	No. empl.
CSP	1.00	0.13**	0.09*	0.08+	–0.08+	–0.02	0.08+	0.02
ROA		1.00	0.47***	0.71***	–0.22***	–0.08+	–0.23***	–0.05
ROE			1.00	0.41***	–0.09*	0.02	–0.05	0.03
ROS				1.00	–0.14**	–0.06	–0.08+	–0.06
D/A					1.00	–0.01	–0.09*	0.04
Sales						1.00	0.70***	0.81***
Assets							1.00	0.51***

$^{+}p \leq 0.1$; $^{*}p \leq 0.05$; $^{**}p \leq 0.01$; $^{***}p \leq 0.00$

Table 4(b). Correlations with 1991 profitability, 1990 CSP, and 1990 financial controls

	CSP	ROA	ROE	ROS	LD/A	Sales	Assets	No. empl.
CSP	1.00	0.18***	0.09*	0.17***	–0.12**	–0.01	–0.08+	0.02
ROA		1.00	0.45***	0.82***	–0.24***	–0.06	–0.15**	–0.05
ROE			1.00	0.45***	–0.15**	0.02	0.01	0.01
ROS				1.00	–0.21***	–0.06	–0.01	–0.07
Lagged debt/assets					1.00	–0.00	–0.09+	0.05
Lagged sales						1.00	0.70***	0.78***
Lagged assets							1.00	0.53***

$^{+}p \leq 0.1$; $^{*}p \leq 0.05$; $^{**}p \leq 0.01$; $^{***}p \leq 0.001$.

Table 5. Regression analysis using 1990 CSP as the dependent variable and 1989 financial data as independent variables

Dependent variable: Corporate social performance	Model 1	2	3
Independent variable: ROA	1.189***	1.206***	1.225***
Control variables			
Debt/total assets	−0.079	−0.079	−0.079
Total sales	−0.722E−6		
Total assets		−0.903E−7	
Number of employees			0.962E−4
R^2	0.11	0.11	0.11
Adj. R^2	0.08	0.07	0.08
F	3.443***	3.426***	3.435***

Table 6. Regression analysis with 1991 financial performance (profitability) as dependent variable and 1990 CSP as the key independent variable with 1990 financial control variables

Dependent variable: Return on assets	Model 1	2	3
Independent variable: CSP	0.024**	0.024***	0.024**
Control variables			
Debt/total assets	−0.120***	−0.121***	−0.117***
Total sales	−0.502E−6*		
Total assets		−0.298E−6*	
Number of employees			−0.953E−4*
R^2	0.29	0.29	0.29
Adj. R^+	0.27	0.27	0.27
F	11.558***	11.593***	11.549***