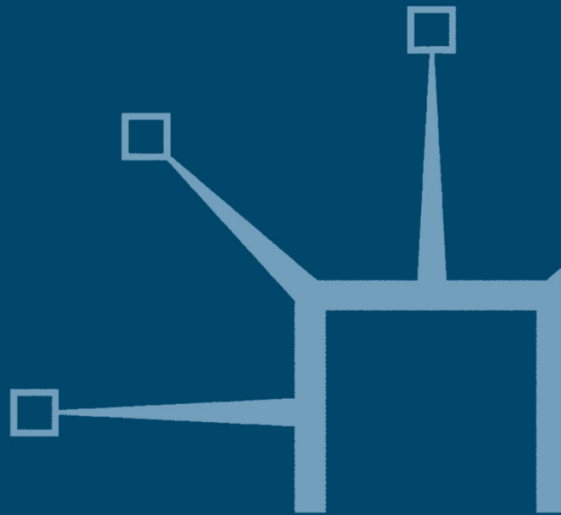


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Toward Integrative Corporate Citizenship

Research Advances in Corporate Social Performance

Marc Orlitzky and Diane L. Swanson



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Research Advances in Corporate Social Performance

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In memoriam
Erika Orlitzky (1920–2000)
and
Charlotte Swanson (1888–1972)

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List of Abbreviations

CSP	Corporate social performance
CC	Corporate citizenship
SRI	Socially responsible investment
G theory	Generalizability theory
CEP	Corporate environmental performance
CFP	Corporate financial performance
CSR	Corporate social responsibility
SIM	Social Issues in Management
ROA	Return On Assets
ROIC	Return on Invested Capital
SD	Standard Deviation
CAPM	Capital Asset Pricing Model
ROE	Return on Equity
EPS	Earnings Per Share
CERES	Coalition for Environmentally Responsible Economies
WHO	World Health Organisation
R&D	Research and Development
IABS	International Association for Business and Society
SBU	Strategic Business Unit
EMBA	Executive MBA
OLS	Ordinary least-squares

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and generosity in sharing his remarkable wisdom, I would not have endeavored to publish the two *Academy of Management Review* articles that constitute Chapters 1 and 2. I am grateful to the members of the International Association for Business and Society Award Committee for selecting the 1999 *Academy of Management Review* article for 'Best Article' in 2001.

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Prior to my doctoral studies at the University of Pittsburgh, I received a Masters of Arts in Economics from the University of Missouri at Kansas City where I studied institutional economics along with other variants of economic thought. This particular educational background proved to be very instrumental in preparing me for exploring business and society issues at the University of Pittsburgh. I particularly want to thank Jack Ward for his kind mentorship at the University of Missouri at Kansas City and also Ross Shepherd, Bob Brazelton, and the late John Hodges for their roles in preparing me for further graduate studies.

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Prior to joining the faculty at Kansas State University, where I currently teach Business, Government, and Society and Professional Ethics, I taught Strategic Management at Robert Morris University while pursuing my doctoral degree at the University of Pittsburgh. Without the support of George Biles, then Dean of the Business College at Robert Morris University, and Nell Hartley, Head of Management at that time, my efforts in juggling full time teaching and doctoral studies would have been much more difficult.

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Introduction

Given the increased impact of nonmarket forces on business reputation and success, there has never been a greater need to grasp corporate social performance from a theoretically sound, integrative perspective. This involves understanding the responsibilities that business firms have to society, the means by which they respond to stakeholder demands, and the impacts these actions have on social and natural environments. Indeed, interest in these aspects of the business and society field continues to abound, particularly in light of the findings, presented in Part II of this volume, which substantiate the proposition that responsible corporate conduct can pay financially. Given these findings, it can be to a firm's advantage to incorporate social responsibility into strategic planning proactively as well as to influence and adhere to voluntary codes of ethical conduct in an industry. In short, corporate social responsibility can represent a strategic opportunity. Conversely, not attending to this area can invite public scrutiny. Notably, the public's concern about a lack of business responsibility, fueled by a wave of business scandals, has culminated in increased investigations by the press and new, expensive oversight mechanisms, such as the regulatory response of Sarbanes-Oxley in the United States, a Code of Corporate Governance in the United Kingdom shaped by the Smith and Higgs Reports, and a legion of ethics consultants charged with assisting firms with compliance.

This scrutiny is increasingly directed at multinational corporations that operate across sovereign boundaries to encounter ethical quandaries, many of which stem from cultural relativism manifest as different legal and cultural norms. The stakes for understanding what constitutes socially responsible corporate performance are raised further by claims that business needs to be part of the solution to large-scale environmental issues

that challenge the ability of humans and other species to survive and flourish on this planet. These issues include ozone depletion, global warming, deforestation, and endangerment of biological diversity, all of which are affected by corporate activity. In an age of globalization, there is an opportunity to address these issues proactively and strategically (Hart, 2007). For instance, partnering with civil society groups such as the Global Reporting Initiative, Human Rights Watch, Council of Institutional Investors, Business for Social Responsibility, and Amnesty International can help shape norms of responsible business conduct globally.

As authors of this book, we have long endeavored to help shape inquiry into these issues. In fact, this book can be viewed as a culmination of our two closely related research programs. We are grateful that some of these efforts have been recognized by our peers. For instance, in 2001 Diane Swanson received the Best Article Award from the International Association for Business & Society for her contribution to corporate social performance theorizing, specifically for her 1999 *Academy of Management Review* article (see Chapter 2). This contribution and her 1995 *Academy of Management Review* article on a similar topic (Chapter 1) are widely cited in several related fields.

In 2004 Marc Orlitzky won two different awards for his meta-analyses. First, he received the Moskowitz Prize for outstanding quantitative research relevant to the social investment field, (revised and updated in Chapter 4), an award he shares with co-authors Frank Schmidt and Sara Rynes. As background, the Moskowitz Prize is awarded each year to the research paper that best meets the criteria of (1) practical significance to practitioners of socially responsible investing, (2) appropriateness and rigor of quantitative methods, and (3) novelty of results. It is sponsored by Calvert Group, First Affirmative Financial Network, KLD Research & Analytics Inc., Nelson Capital Management, Rockefeller & Co., and Trillium Asset Management Corporation. Since then, this research has been cited more often than any other most-cited article published in the same year (2003) in the most prestigious management journals. Specifically, as of this writing, the study presented in Chapter 4 outperformed other top-cited articles in *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, and *Administrative Science Quarterly* by a minimum of ten citations in terms of citations garnered in the *Social Science Citations Index*. Even researchers with contrary views of the corporate social-financial performance relationships, summarized in Part II of this book, deemed this study 'influential' (e.g., Vogel, 2005, p. xvi). In fact, this study has been referred to as the

'mother of all studies' in the *Australian Financial Review* (O'Halloran, 2005). In addition, Marc Orlitzky, along with John Benjamin, won the Best Article Award from the International Association for Business & Society for a study of business risk and corporate social performance (revised and updated in Chapter 5).

This book provides an overview of these award-winning articles as well as other research efforts.

As the book's title suggests, we approach corporate citizenship from an integrative perspective. Consistent with Carroll's (1998) definition, 'corporate citizenship' refers to the extent to which organizations are able to fulfill four broad responsibilities: economic, legal, ethical, and philanthropic. The only conceptual adjustment that we would like to note here is that 'philanthropy' is too narrow a term for voluntary, or supererogatory, acts of business (going above and beyond the law and ethics) because it connotes charitable donations (Porter & Kramer, 2002), whereas discretionary organizational activities can also be designed to meet broader community needs, including those related to ecological imperatives (Carroll, 1998, 1999; Porter & Kramer, 2006; Porter & van der Linde, 1995). It is these broad community needs that this book addresses.

This conceptualization of our core topic alerts the reader that our approach is *integrative* in several ways. First, the theoretical perspective in Part I of the book reconciles some normative and descriptive aspects of extant corporate social performance research. Second, based on meta-analytic methodology, Part II conveys the accumulated evidence that complementary relationships between corporate citizenship and other important organizational constructs exist. Consistent with our theme of integration, a widely used synonym for 'meta-analysis' is 'integrative literature review' (Cooper, 1998; Cooper & Hedges, 1994; Hunter & Schmidt, 2004). Third, throughout the book, but especially in Part III, we assume that since organizational performance is multidimensional, only an integrative, multilevel perspective on corporate citizenship can shed light on how to bring about desired consequences for business and society. Specifically, economic, social, and ecological goals should not be treated *a priori* as contradictory either/or decisions since they often exhibit affinities (see also Orlitzky, 2006), particularly if organizational decision makers are broadminded and strategic in their approach to these multifaceted issues (Porter & Kramer, 2006).

Such an integrative approach to corporate citizenship places at least two demands on good research. First, integration in this context means that theory and methodology should inform each other. In this vein,

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this book represents an effort to demonstrate that sound theory and rigorous methodology are both important for intellectual progress in this burgeoning field. By definition, this kind of integration requires an incorporation of extant theoretical and empirical research relevant to organizational decision making, which we have attempted to do. The second demand that an integrative approach places on research is that relevance not be sacrificed to rigor. Just as our research shows that there is not necessarily a tradeoff between 'the descriptive' and 'the normative' (Part I) and financial and social goals (Part II), we eschew a tradeoff between rigor and relevance. According to this standard, we deliberately prescribe means by which companies can navigate and manage their environments more effectively (see, for examples, Chapters 4, 5, 6, and 8), prompted by the belief that theory and empirical-functional research can help in the development of more effective and rational business practices (see Bazerman, 2005).

In line with this prescriptive organizational focus, the viewpoint stressed in Part I and reflected in the other parts of this book is that of being inside a firm looking out, so to speak. Essentially, we focus on the internal organizational decision processes that must be in place for firms to grasp stakeholder interests and respond constructively to them while also pursuing financial goals. Given this focus, there is no attempt to develop a decision orientation for public policy makers, government regulators, social activists, or other public interest actors who may seek a constructive business and society relationship, although we welcome such complementary research. Nor is there an examination of citizenship from the purview of political science as loci of protections granted by nation states. Although such research is important in light of globalization that can result in less influence exerted by nation states and more expectations placed on corporations to compensate (Matten & Crane, 2005; Wood, Logsdon, Lewellyn & Davenport, 2006), our research is on a continuum with the understanding that a firm's quest for citizenship involves activities related to corporate social responsibility (Carroll, 1998), meeting legitimate stakeholder expectations of these activities (Maignan & Ferrell, 2001), and ultimately forging collaborative partnerships with community members (Marsden, 2000; Vidaver-Cohen & Altman, 2000; Waddock & Smith, 2000). From this vantage point, we are interested in a firm's posture toward the external environment, particularly as a tone set by top executives to drive processes of engagement with stakeholders that inform day-to-day operating practices (see Marsden & Andriof, 1980; Waddock, 2002). As conveyed in Chapters 1, 2 and 3, if this posture is neglectful, then there is no

possibility for citizenship, however defined. More affirmatively, a firm's ability to exhibit an 'attuned' relationship with its stakeholder environment is presented in Part I as a precondition for corporate citizenship. Hence, we use the qualifying phrase 'toward integrative corporate citizenship' in the title of this book. Moreover, the empirical evidence conveyed in Part II suggests that this kind of attuned relationship can pay financially, which points to the possibility of a mutually reinforcing relationship between, or integration of, social and financial goals in many instances.

The book is structured as follows. Part I integrates various theoretical contributions to the literature in reoriented models of corporate social performance while the four chapters of Part II summarize several empirical, meta-analytic advances. The final three chapters of Part III conclude with suggestions for improved measurement of integrative corporate citizenship, executive-level predictors of corporate social performance, and some thoughts on implementation.

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Part I

Theories of Corporate Social Performance: Toward a New Vision of Theoretical Integration of Value-Based Business Leadership

Introduction to Part I

Is corporate social performance theorizing capable of dealing with the complex, ponderous concerns presented in the Introduction of this book? Our view is that corporate social performance, as typically understood, is too narrowly construed to provide a framework for articulating, assessing, and guiding corporate actions on such a vast scale. More pointedly, corporate social performance is marred by an unwieldy tension that precludes an integration of its research topics, mainly because it embodies two inherently contradictory approaches, discussed in Chapter 1, as *economic-focused* and *duty-aligned perspectives*. Neither is particularly well suited to serve as a basis for theory capable of addressing large-scale, complicated social issues. Briefly, the economic perspective that has shaped the business and society field at large and corporate social performance research in particular tends to equate corporate social responsibility with the efficient and profitable production of goods and services. Mostly utilitarian in nature, it judges economic activity in terms of these consequences while accepting a narrow formulation of self-interest that prompts a pursuit of them. This perspective contrasts rather sharply with that aligned with duty. Influenced by business ethics research, the dutiful view eschews a focus on consequences and an elevation of narrow self-interest to formulate rules based on a motivation of respect for moral personhood aligned with standards of human rights and justice, ultimately expressed as duties to others.

We do not claim that the first three chapters in Part I resolve this theory-building dilemma or the tension between the two perspectives, but rather that core problems are explicated and ameliorated in order to provide an integrative approach that can better inform theoretical and empirical research in corporate social performance. That this integrative approach is grounded in organizational theory is important to note, since the economic and dutiful perspectives do not take full advantage of developments in social science expressed in organizational theory. Indeed, a reliance on social science marks this volume, consistent with our belief that incorporating advances in organizational theory and methodology can ultimately inform better research and practice, as noted in the Introduction.

Chapter 1 demonstrates that while the economic and dutiful perspectives overlap in a common interest in the social control of business, such as that posed by government regulation and stakeholder pressure, they are not integrated. A more complete understanding of theory-building problems is accomplished by analyzing what is com-

monly known as ‘the corporate social performance model’, which is reoriented so that it can be used to explore a synthesis of the two perspectives which are revised in terms of the three main categories of the model – principles of corporate social responsibility, processes of corporate social responsiveness, and outcomes of corporate behavior. This reframing is macro-oriented in that it addresses theory-building problems by proposing a new synthesis of business and society topics overall. Ultimately, however, it points to a revitalization of corporate social performance by emphasizing the importance of executive leadership, which is the subject of Chapter 2 where the lack of integration between the economic and dutiful perspectives is explicated in terms of a stubborn tension between ‘the descriptive’ (what corporations do or can do) and ‘the normative’ (what corporations should or should not do).

Informed by the reorientation of research topics laid out in the first chapter, the second chapter shows how normative-descriptive unification is possible in terms of executive decision making that does not bracket ethical values (the normative) from facts (the descriptive) but rather integrates both in an attempt to direct a firm’s relationship with its social environment in terms of value-aware organizational decision processes. The potentiality for this type of executive leadership culminates in an organizational posture toward society dubbed ‘attunement’. The main proposition is that executives’ receptivity toward understanding and leveraging constructive personal and organizational values is a necessary condition for aligning corporate behavior with broad-based expectations of responsible organizational conduct. This *normative receptivity* is compared to *normative myopia*, stipulated as the propensity of executives to ignore or downplay the role of ethical values in their decision making. Normative myopia, in turn, can lead to *corporate neglect* of social concerns, a form of conduct exemplified by the eruption of corporate scandals referred to in the Introduction.

Chapter 3 further explores the proposition that executives’ receptivity to values is necessary for aligning corporate behavior with social expectations of responsible organizational conduct. This exploration is threefold. One, the importance of identifying organizational values relevant to an attuned relationship between business and society is underscored. Two, the possibility that pressure from special interest groups can in fact constrain an executive’s inclination to foster and encourage the organizational values that serve the collective good is explored. Three, the potential for a trustful dialogue between organizational representatives and community constituents that helps align

corporate conduct with the expressed needs of community is presented as an important part of the attunement process. Indeed, trustful dialogue is formulated as a linchpin for extending corporate social performance into the domain of corporate citizenship writ large, as reflected in the title of this book. After all, one of the first principles of business ethics is that the corporation is a citizen of the larger community. Understanding the responsibilities of such citizenship means that corporations need to go beyond forced compliance with social control to willingly and proactively monitor and attend to community interests by engaging in a form of communication that, according to the dutiful perspective, is based on a respect for stakeholders that helps build trust. Since research presented in Part II suggests that economic goals may be accomplished in the process, the extension of topics in Chapter 3 points to the potential for blending the economic and duty-aligned perspectives in theory and practice, consistent with our quest to forge an integrative approach to corporate citizenship.

This value-based, integrative approach to corporate citizenship, which relies on the possibility of forging the attuned relationship with society described in Chapter 2, is also considered in Part III in terms of executive preference for compensation, strategic planning, social and environmental accounting, and fit and flexibility in human resource management. The integrative review of cutting-edge empirical research linking corporate social performance and corporate financial performance in Part II, and the implications for measurement and practice in Part III, substantiates our view that the blending of theoretical and empirical advances represented in this monograph, and their reliance on advances in social science, can enhance value-based organizational leadership that effectively integrates financial, social, and environmental concerns in decision making.

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Addressing a Lack of Theoretical Integration in Corporate Social Performance

As indicated in the Introduction to Part I, the business and society field at large and corporate social performance topics in particular have been shaped by two dominant orientations, referred to here as *economic-focused* and *duty-aligned* perspectives. The purpose of this chapter is to describe the two perspectives, demonstrate their lack of integration, and identify the problems posed for integrative theory development. To preview, their lack of integration means that restraining unethical behavior by social control that is normatively undefined is emphasized to the detriment of a more forward-looking, affirmative view of business's role in society. Practically speaking, this fuels the misperception among practicing managers that economics and ethics do not mix, as indicated by the familiar refrain that 'business ethics is an oxymoron' (Swanson, 2002; 2008). One goal of integration is to point managers to a holistic approach that counteracts this myth.

The economic-focused perspective, largely expressed through the field's management research, encompasses many social and ethical issues. It never, however, loses sight of the firm's inviolable economic responsibility to efficiently and profitably produce goods and services for society. This perspective accepts some tenets of the utilitarian ethic in neoclassical economics, including a teleological approach to ethics that judges economic activity by its consequences or outcomes. Overall, neoclassical economics maintains that the consequence of greatest

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