
The Determinants of Corporate Social Performance: An Empirical Examination

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INTRODUCTION

An area that has received an increased focus of attention is the corporate social performance (CSP) of organizations (Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991a; Wood, 1991b). This study examines the critical components that create a high level of corporate social performance. This study builds on existing research by examining the relationship between corporate social performance and eight different variables which include: firm profitability, charitable giving, environmental emissions, women and minority members on the board of directors, women and minority members within the firm, and annual salary and monetary bonus of the Chief Executive Officer.

PREVIOUS RESEARCH ON CORPORATE SOCIAL PERFORMANCE

The concept of Corporate Social Performance (CSP) has evolved over the past twenty years. Ackerman (1975) describes socially responsive firms as those companies which monitor and evaluate environmental conditions which focus on the demands of various stakeholders. Carroll (1979) proposes that CSP is comprised of three components which are: (1) the level of social responsibility, (2) the commitment of social issues and (3) the philosophies of social responsiveness of firms. Wartick and Cochran (1985) further extend the definition of CSP by proposing that CSP is based on the firm's integration of (1) the principles needed for social responsibility, (2) the processes used in developing social responsiveness and (3) the policies created to confront social issues.

In her extension of the definition of CSP, Wood (1991a)

also describes CSP as being comprised of three major components. The first component is the level of corporate social responsibility. Corporate social responsibility is based on legitimacy within society, public responsibility within the organization, and the managerial discretion by each individual within the organization. Corporate social responsiveness is the second component of CSP. Corporate social responsiveness includes environmental assessment, stakeholder management and issues management. The third component relates to the outcomes of corporate behavior and includes factors such as social impacts, social programs, and social policies. Therefore, CSP is considered to be a critical factor for all organizations since CSP components such as: "(s)ocial issues, environmental pressures, stakeholder concerns are sure to affect corporate decision making and behavior far into the future" (Wood, 1991b, p. 400).

To incorporate these three major components, Wood defines CSP as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (1991a, p. 693).

MEASURING CORPORATE SOCIAL PERFORMANCE

Previous research has used a number of different variables to measure Corporate Social Performance. They have included the level of social responsibility and pollution issues contained in annual reports (Bowman and Haire, 1975; Belkaoui, 1976; Anderson and Frankle, 1980;), response by CEOs through the use of questionnaires

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(Aupperle, Carroll, and Hatfield, 1985), and the measurement of pollution releases (Bragdon and Marlin, 1972; Fogler and Nutt, 1975; Chugh, Haneman, and Mahapatra, 1978; Chen and Metcalf, 1984; Freedman and Jaggi, 1982; Shane and Spicer, 1983; Freedman and Jaggi, 1986; Rockness, Schlachter and Rockness, 1986). However, previous research has supported the belief of a multiple dimension measurement of CSP (Ackerman, 1975, Ullmann, 1985, Wood and Jones, 1995). As Ullmann (1985) states, socially responsive firms attempt to satisfy the needs of all stakeholders. Boal and Peery (1985) state that management of socially responsive firms will make strategic decisions which are economically feasible and must affect all stakeholders in a just manner. Wood and Jones (1995) argue that stakeholders should be the focus of CSP since it is the stakeholders who establish the expectations about CSP, personally experience the impact of CSP, establish a measure and evaluate the impact the CSP on their personal interests, and act based on their interests.

Previous research has examined the relationship between CSP and various stakeholders including: corporate philanthropy (e.g., Wokutch and Spencer, 1987), the CEO (e.g., Miles, 1987), employees (e.g., Kedia and Kuntz, 1981), the natural environment (e.g., Shane and Spicer, 1983) and stockholders (e.g., Pava and Krausz, 1996). In this study, the relationship between CSP and all five of these stakeholders is examined.

Corporate Philanthropy and CSP

Previous research has found that larger firms are more likely to contribute a larger amount of money (Levy and Shatto, 1980), but smaller firms are more likely to give a higher proportion of pretax earnings (Kedia and Kuntz, 1981). Wokutch and Spencer (1987) discovered that higher contribution levels relates to the higher Fortune Corporate Reputation Index. Therefore, it is expected that there would be a positive relationship between CSP and corporate philanthropy.

The Chief Executive Officer and CSP

Another factor to consider is whether the incentive system designed for the Chief Executive Officer can impact the firm's level of CSP. Miles (1987) argues that the philosophy of the top level managers is critical to the type of organizational corporate social philosophy. The strategic choices implemented by the CEO are significant to the direction the organization takes in addressing social issues (Ackerman, 1975). Wood (1991b) states that strategic choices are a necessary component of corporate social performance. The incentive system designed for top level managers, including the CEO, impacts the type of strategic choices made by the CEO and other top level managers. Therefore, an additional variable to consider is the level of CEO compensation. An issue that needs to be considered is whether there is an incentive for CEOs to enhance the CSP of their firm. Since the board of directors

represent the stockholders of the company who expect continuous financial improvement, it would be expected that the firm's CSP would not be considered in the compensation evaluation. In addition, there could be a negative relationship between CSP and CEO compensation since the board of directors may consider high CSP by the firm as a cost which would hinder the financial performance of the organization.

Employees and CSP

A number of studies have examined the relationship between employees and CSP (e.g., Holmes, 1977; Ingram, 1978, Kedia and Kuntz, 1981). Kedia and Kuntz (1981) state that firms with high representation of minorities and women are larger in size, have higher levels of market share, and address the specific needs of minorities and women. Therefore, it is proposed that there would be a positive relationship between CSP and employees.

Natural Environment and CSP

Based on the work of Wood (1991a), it is expected that one of the critical dimensions of CSP is the environmental performance of the firm. In their examination of social responsibility at Eastman Kodak, Poduska et al. (1992) discovered that Kodak was committed to reduce pollution emission levels through new technological developments. Reilly (1992) found the same relationship between social responsibility and reduction of emission levels at Minnesota Mining and Manufacturing. Therefore, it is expected that there will be a positive relationship between CSP and the reduction of pollution emissions.

Stockholders and CSP

The relationship between CSP and financial performance has yielded conflicting results. In their review of twenty one major studies on this relationship, Pava and Krausz (1996) discovered that twelve studies found a positive relationship between CSP and financial performance (Bragdon and Marlin, 1972; Bowman and Haire, 1975; Belkaoui, 1976; Sturdivant and Ginter, 1977; Chugh, Haneman and Mahapatra, 1978; Anderson and Frankle, 1980; Shane and Spicer, 1983; Cochran and Wood, 1984; Rockness, Schlachter and Rockness, 1986; McGuire, Sundgren and Schneeweis, 1988; Cotrill, 1990; Roberts, 1992), 8 studies found no significant relationship (Folger and Nutt, 1975; Alexander and Buchholz, 1978; Freedman and Jaggi, 1982; Chen and Metcalf, 1984; Aupperle, Carroll, and Hatfield, 1985; Freedman and Jaggi, 1986; Baldwin, Tower, Litvak, Karpen, Jackson and McTigue, 1986; Patten, 1990) and one study (Vance, 1975) found a negative relationship. As Ullmann (1985) and Pava and Krausz (1996) conclude, the inconsistent results may be due, in part, to the different methods used to operationalize both environmental and financial measures.

Although the causality of this relationship has been debated, one viewpoint is that financial performance impacts the level of CSP. It is argued that social

responsiveness is based on having a strong financial performance to allow the implementation of various social issues (Ullmann, 1985). Ullmann (1985) argues that when organizations show low levels of profitability and/or high debt levels, financial objectives will have a higher priority than social issues. The results of an empirical study by McGuire et al. (1988) support Ullmann's (1985) viewpoint. McGuire et al. (1988) found that firms with high financial performance had a better opportunity to act in a highly socially responsible way.

Reputation Rankings to Measure Corporate Social Performance

Previous research on CSP has used various types of reputation rankings as proxies for Corporate Social Performance. These rankings include the use of Milton Moskowitz's social responsibility ratings (Moskowitz, 1972; Vance, 1975; Sturdivant and Ginter, 1977; Alexander and Buchholz, 1978; Cochran and Wood, 1984). A limitation of Moskowitz's measure is that there is limited information available on the criteria actually used to develop this ranking. Therefore, caution may be needed when interpreting the results using Moskowitz's measure.

The Corporate Reputation Index developed by *Fortune* magazine (McGuire, Sudgren and Schneeweis, 1988; Cotrill, 1990; Forbrun and Shanley, 1990; Thomas and Simerly, 1994) has been used as a measure of CSP. Using the evaluation of 8000 executives from the largest 10 firms from each major industry, the *Fortune* Corporate Reputation Index evaluates companies on eight different criteria which include: quality of management, quality of products or services, innovativeness, long-term investment value, financial soundness, ability to attract, develop, and keep talented people, wise use of corporate assets, and responsibility to the community and the environment. Using the Corporate Reputation Index, McGuire et al. (1988), Cotrill (1990), Forbrun and Shanley (1990) all found a positive relationship between CSP and financial performance.

However, Fryxell and Wang (1994) warn that there will be a strong relationship between the *Fortune* Corporate Reputation Index and the firm's financial performance. They state that this is true since the Corporate Reputation Index is highly influenced by the financial position of the firm.

The Council of Economic Priorities (CEP) rankings (Roberts, 1992; Blackburn, Doran, and Shrader, 1994) have also been used to measure CSP. The ten components which firms are evaluated on are: contribution to charity, women's advancement within the organization, the advancement of minorities, the involvement with military contracts, the use of animal testing, the level of disclosure of information pertaining to social programs, community involvement, the firm's involvement with nuclear power, the level of business involvement in South Africa, environmental issues, and the level of family benefits offered by the firm.

As was stated previously, this study will incorporate a

number of different variables to evaluate the critical components that generate a firm's corporate social performance. The relationship between CSP and 5 different stakeholders is examined: corporate philanthropy (contributions to charities), the CEO (CEO compensation), employees (number of women on the board of directors/employed by the organization, and the number of minorities on the board of directors/employed by the organization), the natural environment (toxic emissions) and stockholders (financial performance).

Therefore, the hypothesis to be empirically tested in this study is:

- Hypothesis 1: Corporate Social Performance of a firm is positively impacted by: the level of women and minorities on the board of directors and employed by the firm, the reduction of toxic emission released by the firm, the level of charitable donations given by the firm and inversely related to the level of CEO compensation.

METHODOLOGY

The sample of firms for this study is based on the listing of the 1996's *Business Ethics* 100 which is presented by *Business Ethics* magazine. The *Business Ethics* 100 lists a number of different variables pertaining to the 100 firms including: profits, number of employees, percent of pre-tax profit to charity, Investors Responsibility Research Center Environmental Trend (which tracks the reduction of toxic emission levels released by firms), percent of women on the Board of Directors, percent of minorities on the Board of Directors, percent of women employees, percent of minority employees, 1995 salary level of the CEO, 1995 bonus paid to the CEO and an overall social responsibility ranking. Each firm's social criteria was assigned a value from one to ten. The firm's overall social responsibility ranking is based on the summation of the values of all of the social criteria. The firms are ranked from 1 to 100, so, the lower the number of the ranking, the higher the level of corporate social performance. Regression analysis was used to analyze the relationship between corporate social performance and the variables that can impact CSP.

RESULTS

A summary of the descriptive statistics are shown in Table 1.

The financial measure of the firm is based on the profits. Profits are divided by the number of employees to adjust for firm size. As can be seen by the results, financial performance varied from -0.31 to 8.27. The level of charitable contribution varied across the sample from 0 percent to 10 percent. The release of toxic emissions had a range from a reduction of 100 to an increase of 100 units.

TABLE 1
Descriptive Statistics

Variable	Mean	Std Dev.	Minimum	Maximum
SRRK	50.500	29.011	1.000	100.000
PROEMP	2.045	1.745	-0.311	8.270
CHAR	1.534	1.667	0.000	10.000
ENV	-22.149	32.541	-100.000	100.000
WB	12.490	7.754	0.000	60.000
MB	7.960	10.041	0.000	70.000
WE	23.295	25.551	0.000	85.000
ME	10.323	14.278	0.000	81.000
PAY95	650396	284423	111111	1625000
.BON95	917592	1346607	0.000	9481116

SRRK = SOCIAL RESPONSIBILITY RANKING

PROEMP = 1995 PROFITS/NUMBER OF EMPLOYEES

CHAR = PERCENT OF PRE-TAX PROFIT TO CHARITY

ENV= INVESTORS RESPONSIBILITY RESEARCH CENTER ENVIRONMENTAL TREND

WB= PERCENT OF WOMEN ON THE BOARD OF DIRECTORS

MB= PERCENT OF MINORITIES ON THE BOARD OF DIRECTORS

WE= PERCENT OF WOMEN EMPLOYEES

ME= PERCENT OF MINORITY EMPLOYEES

PAY95= CEO'S 1995 SALARY

BON95= CEO'S 1995 BONUS

There was also a large variance in the level of women and minority representation in the sample firms. The range was from 0 to 60/85 percent for women on the Board of Directors/employed by the firm and 0 to 70/81 percent for minorities on the Board of Directors/employed by the

firm. The compensation level of the CEO ranges from \$111,111 to \$1,625,000 for the 1995 salary and \$0 to \$9,481,116 for the 1995 bonus.

The correlation coefficients for the variables are shown in Table 2.

TABLE 2
Correlation Analysis

	SRRK	PROEMP	CHAR	ENV	WB	MB	WE	ME	PAY95	BON95
PROEMP	0.092 0.360									
CHAR	-0.359 0.000*	-0.064 0.522								
ENV	-0.012 0.903	0.160 0.109	-0.113 0.261							
WB	0.024 0.806	-0.111 0.268	0.010 0.917	0.125 0.213						
MB	-0.266 0.007*	-0.135 0.180	0.174 0.083#	0.068 0.499	0.057 0.567					
WE	-0.484 0.000*	0.005 0.960	0.086 0.390	0.303 0.002	0.091 0.363	0.227 0.022*				
ME	-0.532 0.000*	-0.021 0.832	0.119 0.236	0.136 0.175	0.134 0.182	0.533 0.000*	0.646 0.000*			
PAY95	0.280 0.004	-0.067 0.504	-0.073 0.470	-0.251 0.011*	0.075 0.457	-0.028 0.775	-0.282 0.004*	-0.169 0.091#		

TABLE 2 (cont.)
Correlation Analysis

	SRRK	PROEMP	CHAR	ENV	WB	MB	WE	ME	PAY95	BON95
BON95	0.169	0.064	-0.217	-0.149	-0.487	-0.069	-0.114	-0.080	0.189	
	0.091#	0.523	0.030*	0.136	0.629	0.492	0.256	0.423	0.059#	

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WE= PERCENT OF WOMEN EMPLOYEES

ME= PERCENT OF MINORITY EMPLOYEES

PAY95= CEO'S 1995 SALARY

BON95= CEO'S 1995 BONUS

* p = 0.05

p = 0.10

The results show a number of strong correlations. There is a strong positive relationship between CSP and percent of: charitable contributions, minority board members, women employed, minorities employed and an inverse relationship with CEO pay and bonus level. (A negative value signifies a positive relationship since the smaller the CSP ranking number, the higher the level of CSP).

In addition, the percent of minorities on the board is positively related to the percent of charitable contributions. The percent of women employees is positively related to percent of minority board members and

inversely related to the reduction of environmental emissions. The percent of minority employees is positively related to percent of minority board members and percent of women employees. CEO pay is positively related to the reduction of environmental emissions and inversely related to percent of women and minority employees. The bonus given to the CEO is positively related to the pay level of the CEO and inversely related to the percent of charitable contributions.

The results of the regression analysis are shown in Table 3.

TABLE 3
Regression Analysis

Source	DF	Sum of Squares	Mean Square	F Value	Prob > F
Model	9	37331.60867	4147.95652	8.117	0.0001
Error	90	45993.39133	511.03768		
Total	99	83325.00000			

R Square =0.4480

Adjusted R Square = 0.3928

Variable	DF	Parameter Estimate	Standard Error	T for HO: Parameter=0	Prob > T
Intercept	1	54.960819	8.86244956	6.202	0.0001*
PROEMP	1	1.237813	1.35394081	0.914	0.3630
CHAR	1	-4.649195	1.44114034	-3.226	0.0018*
ENV	1	0.084011	0.07856913	1.069	0.2878
WB	1	0.310157	0.30302351	1.024	0.3088
MB	1	0.099580	0.27924223	0.357	0.7222
WE	1	-0.247960	0.12594191	-1.969	0.0520*

TABLE 3 (cont.)
Regression Analysis

Variable	DF	Parameter Estimate	Standard Error	T for HO: Parameter=0	Prob > T
ME	1	-0.753952	0.24764098	-3.045	0.0031*
PAY95	1	0.000015	0.00000867	1.779	0.0786*
BON95	1	0.000000	0.00000178	0.530	0.5971

SRRK = SOCIAL RESPONSIBILITY RANKING
 PROEMP = 1995 PROFITS/NUMBER OF EMPLOYEES
 CHAR = PERCENT OF PRE-TAX PROFIT TO CHARITY
 ENV= INVESTORS RESPONSIBILITY RESEARCH CENTER ENVIRONMENTAL TREND
 WB= PERCENT OF WOMEN ON THE BOARD OF DIRECTORS
 MB= PERCENT OF MINORITIES ON THE BOARD OF DIRECTORS
 WE= PERCENT OF WOMEN EMPLOYEES
 ME= PERCENT OF MINORITY EMPLOYEES
 PAY95= CEO'S 1995 SALARY
 BON95= CEO'S 1995 BONUS

* p = 0.05

p = 0.10

The results of the regression analysis ($p = .0001$ R square = .448) provide partial support for Hypothesis 1. There is a significant ($p = 0.05$) positive relationship between CSP and percent of charitable contributions and percent of women and minority employees and a significant ($p = 0.10$) inverse relationship with CEO salary.

Discussion and Suggestions For Future Research

The results of this study have yielded some interesting results. The results have shown that CSP is a multi-dimensional concept (Lerner and Fryxell, 1988; Blackburn, Doran and Shrader, 1994). As Blackburn et al. (1994) state, a number of different variables can impact the level of CSP. In this study, the levels of women and minorities employed by the organization have a significant impact on CSP, yet, the percent of women and minorities on the Board of Directors does not. One explanation for this result could be that women and minorities hired within the organization are allowed to have input in the decision making process of the top level managers. In addition, companies with a high level of CSP may have minorities and women in high levels of management. Therefore, women and minorities may not need direct representation in the board room in order to have their ideas presented.

The strong relationship between percent of charitable donations and CSP shows the direct relationship socially

aware companies have with society. By contributing to charitable donations, these companies are satisfying one of the critical stakeholders, the community at large.

The results of the study also shows an inherent disincentive for CEOs to become more socially responsive. The negative relationship between CEO pay and CSP shows that based on pay alone, CEOs would not encourage the development and implementation of social programs. As was stated previously, the Board of Directors may feel that CSP should not be a measure to incorporate when calculating the salary level of the CEO. Therefore, CEOs may not embrace social programs if the CEO evaluates them from a personal financial perspective. CEOs who do embrace social programs may have it already entrenched in their overall business philosophy (Ackerman, 1975).

A limitation of this study is the size of the sample. Although, significant results were achieved, future research could examine whether these relationships are confirmed with a larger sample of firms. In addition, the firms in the sample may be biased toward larger firms. Although the number of employees in the sample firms range from 123 to 304,500, ninety four percent of the firms had at least 1000 employees. Future research could examine the same relationships for smaller firms. Another avenue for future research could be to examine these relationships for privately held firms.

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