DOES IT PAY TO BE GOOD?
A META-ANALYSIS AND REDIRECTION OF RESEARCH ON THE RELATIONSHIP BETWEEN CORPORATE SOCIAL AND FINANCIAL PERFORMANCE

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Abstract

The empirical link between corporate social performance (CSP) and corporate financial performance (CFP) has been steadily investigated for 35 years. We conduct a meta-analysis of 192 effects revealed in 167 studies. The overall effect is positive but small (mean r=.13, median r=.08). Looking deeper, we analyze these effects across nine categories of CSP. We find that the association is strongest for the analysis of the specific dimensions of charitable contributions, revealed misdeeds, and environmental performance and when CSP is assessed more broadly through observer perceptions and self-reported social performance. The association is weakest for the specific dimensions of corporate policies and transparency and when CSP is assessed more broadly through third-party audits and mutual fund screens. Although the results suggest no financial penalty for CSP, they indicate at least as strong a link from prior CFP to subsequent CSP as the reverse. We conclude that if future research on the link persists, it should meet a number of minimum standards. Ideally, though, efforts to find a link should be redirected to better understand why companies pursue CSP, the mechanisms connecting prior CFP to subsequent CSP, and how companies manage the process of pursuing both CSP and CFP simultaneously.

It's 8:30am on a Friday in July, and Carol B. Tomé is starting to sweat. The chief financial officer of Home Depot Inc. isn't getting ready to face a firing squad of investors or unveil troubled accounting at the home improvement giant. Instead, she and 200 other Home Depot employees are helping to build a playground replete with swings, slides, and a jungle gym at a local girls' club in hardscrabble Marietta, Ga. … Is this any way to build shareholder value at Home Depot, where the stock has been stuck near $43, down 35% from its all-time high? (*Business Week*, 2005)

Can a corporation create wealth and do it in a way that does not harm society, and, in the best of all worlds, even redress social ills? The question of whether "doing good and doing well" converge has waxed and waned over the past century (Morrissey, 1989; Wells, 2002), and it has preoccupied thinkers for nearly 2000 years (Avi-Yonah, 2005). Some theories of the firm emphasize reaching beyond a single-minded focus on wealth creation to attend broadly to society's needs, but the theory that now dominates legal and economic scholarship does not (Allen, 1992; 1993). Commonly known as the "nexus of contracts" theory, it sees the firm as "a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals (some of whom may 'represent' other organizations) are brought into equilibrium within a framework of contractual relation" (Jensen and Meckling, 1976: 311). Even as competing models of the firm gain influence, they must contend with this prevailing view (Blair & Stout, 2006; Freeman, Wicks, & Parmar 2004), which may well continue to shape assumptions about the firm for the foreseeable future (Hansmann & Kraakman, 2001).

Anyone who argues that the ultimate purpose of a firm involves anything more than enhancing shareholder value must come to terms with this dominant theory. Attempts to mitigate a firm's ill effects on society or to fund projects that might directly benefit society are subjected to a rigorous financial analysis. Indeed, the prevailing theory argues that society is best served if these attempts can clear such a financial hurdle. In his appraisal of the longstanding controversy regarding the purpose of the firm, Jensen (2002: 239) argued that "200 years' worth of work in economics and finance indicate that social welfare is maximized when all firms in an economy maximize total firm value." It is a tidy logic that puts the onus on corporate critics and social advocates alike to show how a corporation's social investment must benefit its shareholders. *Business Week*'s (2005) skepticism about Home Depot's community investment practices certainly reflects this orientation.

This theory may be so influential now because it allows managers and regulators alike the freedom to (relatively easily) restructure the firm's assets to best meet the demands of global competition. The globalization of the firms' factor and product markets, and its implications for management and corporate governance, is by now a very familiar story (Bradley, Schipani, Sundaram, & Walsh, 1999; Jensen, 1993; Parker, 1996). As globalization ushered in a period of hypercompetitive business practices (D'Aveni, 1994), companies have struggled to survive, well enough thrive. To see the firm as a bundle of contracts facilitates change. After all, contracts can be renegotiated, even if the social costs are high (Shleifer and Summers, 1988; Uchitelle, Battenberg and Kochan, 2007). And the changes driven by this economic logic have been enormous. The conglomerate merger wave of the 1960s was unraveled in the 1980s (Shleifer & Vishny, 1991), as firms shed their unrelated business units (Comment & Jarrell, 1995) and learned to leverage their "core competencies" (Prahalad and Hamel, 1990) to meet their new competitive realities. Then in the 1990s and early 2000s companies combined anew, searching for the scale economies and competitive advantages considered essential to prosper in a global marketplace – even though the economic benefits have sometimes proven elusive (Moeller, Schlingemann & Stulz, 2005).

Seen in this context, it is no surprise to discover that performance, and especially corporate financial performance, became the dominant dependent variable in organizational research over the past thirty years (Walsh, Weber, & Margolis, 2003). Even if performance was ancillary to the topic at hand, it served to legitimate the work as academically credible and practically relevant (Staw, 1984). Indeed, the study of organizations is marked by all manner of attempts to link management practices to corporate financial performance. Work on strategy (McGahan & Porter, 1997), research and development (Wieser, 2005) and human resource management (Delery & Doty, 1996; Huselid, 1995), to name just a few, attempt to establish a connection between corporate practices and their financial results. The work on corporate social performance is no exception.

Scholars have been searching for a link between corporate social performance (CSP) and corporate financial performance (CFP) for thirty-five years. If only doing good could be connected to doing well, then companies might be persuaded to act more conscientiously, whether in cleaning up their own questionable conduct (Campbell, 2006) or in redressing societal ills (Porter & Kramer, 2006). A positive link between social and financial performance would

legitimize corporate social performance on economic grounds, grounds that matter so much these days (Useem, 1996). It would license companies to pursue the good—even incurring additional costs—in order to enhance their bottom line and at the same time contribute more broadly to the well-being of society.

The influence of this economic reasoning was apparent in the very first empirical CSP-CFP study. Bragdon and Marlin (1972) motivated their research by examining whether or not virtue must be its own reward. They looked at this question from both a manager's and an investor's perspective:

> Proponents [of what they called the orthodox economic logic] argue that corporate managers can either control pollution or maximize profits but that the former can be accomplished only at the expense of the latter. From the investor's perspective, this in turn implies that he can either invest in a profitable company or a "good" company (which protects its environment) but that no company is likely to be both. (Bragdon & Marlin, 1972: 9).

These words were written on the heels of Friedman's (1970) well-known criticism of a firm's corporate social responsibility initiatives. Friedman took direct aim at any firm that contemplated such activity, considering such investments to be theft and political subversion. In his view, executives were taking money that would otherwise go to the firm's owners in order to pursue objectives that the executives, under the sway of a minority of voices, selected in a manner beyond the reach of accepted democratic political processes. But when Bragdon and Marlin (1972: 17) found a positive CSP-CFP relationship, they could comfortably remove any conflict by concluding, "[W]e hope that we have made a step in the direction of laying to rest the economic model that poses the alternative." If they only knew. Thirty-five years later, Nakao, Amano, Matsumura, Genba, and Nakano (2007:107) were still investigating this very same question: "to examine, by multiple linear regression analysis, whether environmental performance has a significantly positive effect on financial performance." One hundred and sixty seven studies, investigating 192 CSP-CFP effects, have been conducted since 1972. Figure 1 profiles this steady research activity. Our goal is to take stock of this research stream and with a meta-analysis, see if we can answer the question of whether it pays to be good.

Insert Figure 1 about Here

We are not the first to distill this longstanding line of research. It is a testimony to the power of the question that sixteen reviews of CSP-CFP research have already assessed whether doing good pays. The first review was published nineteen years ago (Aldag & Bartol, 1978). Since then, another twelve appraisals and three formal meta-analyses have appeared in print. They all try to keep pace with the heavy volume of work investigating the relationship between CSP and CFP. Table 1 captures the reviews as they appeared through time, the number of CSP-CFP studies each review examined, and the citations each has garnered over the years.

Insert Table 1 about Here

Taken together, scholars have turned to these reviews 1,445 times for guidance. The value of a review is a function of the breadth of extant work considered and the insights the authors bring to its evaluation. The rigor of the analysis certainly matters too. Today, both consumers of literature reviews (Bies, Bartunek, Fort, & Zald, 2007) and research methodologists (Rosenthal, 1991) see formal meta-analyses as more valuable than a scholar's idiosyncratic reading of a literature. Indeed, later views of the CSP-CFP literature criticize earlier reviews on just this point (e.g., Orlitzky, Schmidt, & Rynes, 2003). Not surprisingly, the three most recent reviews of this literature have employed meta-analysis: Orlitzky, et al. (2003) analyzed 52 CSP-CFP studies; two years later Allouche and Laroche (2005) analyzed 82 CSP-CFP studies; and most recently, Wu (2006) analyzed 121 studies, with 39 of them focused on the CSP-CFP relationship. Our goal is to expand and deepen these efforts in two ways. First, we offer a comprehensive appraisal of the 167 studies conducted to date and, second, we draw implications both for the CSP-CFP relationship and for future research.

Our paper proceeds in five steps. First, we provide a backdrop to our meta-analysis, describing theoretical approaches to CSP and the CSP-CFP connection. Second, we lay out the methodology for our meta-analysis. Third, we present the results in two forms, in the aggregate and then by the type of study. Fourth, we assess the implications of these results, interpreting what the results do and do not indicate about the relationship between CSP and CFP. And fifth, we identify two paths for future research, and suggest that a new one—rather than the well-traveled familiar one—will best honor the enduring motivation and prodigious efforts behind prior research.

Corporate Social Performance and the Quest for a Link to Corporate Financial Performance

Despite years of theoretical and empirical attention, researchers have encountered significant challenges in both specifying and operationally defining the CSP construct (Barnett, 2007; Clarkson, 1995; Frederick, 2006; McWilliams, Siegel & Wright, 2006; Wood, 1991; Wood & Jones, 1995). Prior reviews of the CSP-CFP work often decry a range of theoretical and methodological faults and, in so doing, promote a continuing research stream that might rectify the problems.

To date, corporate social performance has been theoretically defined in two basic ways. One approach casts social performance as a multidimensional construct, encompassing a company's efforts to fulfill multiple responsibilities — economic, legal, ethical, and discretionary (Carroll, 1979, 1999) — or encompassing a company's principles, processes of response to rising issues, and observable practices and outcomes (Wartick & Cochran, 1985; Wood, 1991). A second approach casts social performance as a function of how a company treats its stakeholders (Campbell, 2007; Clarkson, 1995; Cooper, 2004; Post, Preston, & Sachs, 2002). Although theorists attempt to distinguish corporate social performance from corporate social responsibility (CSR), sometimes subsuming CSP under the umbrella of CSR and sometimes the reverse (Barnett, 2007; Carroll, 1979, 1999; Wood, 1991), the terms corporate social performance and corporate social responsibility (CSR)—or "socially responsible behavior"—are often used interchangeably in empirical studies. Despite extensive theoretical development, researchers have encountered significant challenges operationally defining the theoretical construct of corporate social performance (Clarkson, 1995; Wood & Jones, 1995). As a result, indicators and measures of CSP vary widely and tend to capture either a single specific dimension, such as philanthropic contributions or pollution control, or broad appraisals of CSP as a whole. The increasing influence of stakeholder theory on the study of CSP has corresponded with increased use of Kinder Lydenberg Domini's Socrates database, which rates companies across dimensions that reflect attention to different stakeholder groups (http://www.kld.com/research/socrates/index.html).

Just as theoretical elaboration of the CSP construct has coalesced around two main models, so too have theoretical accounts of the link between CSP and CFP (Jones, 1995; Preston & O'Bannon, 1997). One model treats CSP as a distinctive resource—a way of treating others,

for example, or a way of running the company's operations—that substantively generates benefits or reduces costs, both of which improve financial performance. Heightened benefits may include employee effort that emerges from treating them well, or innovative products and access to markets that emerge from aiding non-profit enterprises. Decreased costs may include the avoidance of potential penalties and regulation as a result of clean and safe operations, less contracting friction with stakeholders as a result of honest dealing, or lower material costs from reduced levels of pollution and waste. For theories that fall within this first broad model, the mechanism that turns CSP into CFP is the value-creating impact of the efforts to do good. Those efforts have the effect of reducing costs or increasing revenues.

In contrast, another set of theoretical accounts suggests that the appeal of CSP, rather than its substantive impact, generates financial returns. Independent of the actual effects of efforts to do good, the second model suggests that the appearance of doing good (or the perception among key stakeholders that a company is doing good) generates demand for and commitment to the company's stock, jobs, or products. The value-creating mechanism is the appearance of CSP. That appearance increases demand and commitment, directly driving up the stock price, for example, or indirectly reducing hiring costs by intensifying employee commitment, or indirectly generating revenue by increasing the likelihood that consumers will purchase the company's products.

Although the mechanisms that connect CSP to CFP may both be at work, and thus the two models may well overlap, the underlying mechanisms do indeed differ. Consider two ways in which helping non-profit organizations might contribute to a company's financial performance. The first model suggests that when a company collaborates with non-profits, the company may strike upon unforeseen markets or innovative products, which open new sources of revenue (Kanter, 1999). The second model suggests that by collaborating with non-profits, a company gains because the public develops a general impression that the company is a good citizen, which makes people more likely to pursue the company's products and jobs, or to permit the company to expand without extensive oversight.

Theories of how CSP and CFP are connected, as well as the evolving definition of CSP (Carroll, 1999), both help explain why studies of the CSP-CFP link have proliferated (see Figure 1). With multiple dimensions and many stakeholders treated as indicators of CSP, and with evolving specifications of their link to CFP, each new study can promise to contribute to a

definitive assessment of the CSP-CFP relationship. Each new study promises to isolate a different dimension of CSP, or to reflect an improved conceptualization of the construct or its theoretical connection to CFP. The diversity of CSP variables suggests that it may be inappropriate to lump all studies and their effects together. As a result, we also analyze CSP-CFP effects across nine categories of CSP.

METHODS

Study Selection and Inclusion

Our review of research on corporate social and financial performance encompasses studies from 1972 through 2007. We selected studies to include in the meta-analysis in five ways. First, we collected articles covered in the sixteen prior reviews of the literature that are listed in Table 1. Second, we searched the ABI/Inform, JSTOR, and EBSCO databases using the keywords "social performance," "social responsibility," "socially responsible," "charitable," "philanthropy," and "environment." Third, we manually checked the table of contents of seven of the top journals in the management field (*Academy of Management Journal*, *Administrative Science Quarterly*, *Journal of Management*, *Journal of Organizational Behavior*, *Organization Science*, *Organizational Studies*, and *Strategic Management Journal*). Fourth, we learned of some papers through informal efforts, such as inquiries with colleagues, suggestions from seminar participants where we presented related work, and papers mentioned by colleagues. Fifth, we identified articles that were referenced by studies found using the four earlier methods.

To be included in this review, a study had to satisfy the following three criteria. First, the manuscript had to include a measure of CSP for individual firms. Because CSP has traditionally been defined broadly and operationally defined in many different ways, we considered any empirical research that fit past conceptualizations. Second, the manuscript had to include a measure of CFP for individual firms, usually an accounting rate of return or a market measure of performance. Third, the manuscript had to report an effect size for the association between CSP and CFP at the firm level or provide enough information for us to calculate an equivalent effect size for this association. A total of 167 studies satisfied these criteria.

Because the majority of studies reported a zero-order correlation as the relationship between CSP and CFP, in the other cases we converted the reported effects into the equivalent of an effect size *r* (Rosenthal & Rosnow, 1991). In the case of multivariate analyses, we used standardized regression *beta*s if reported, or calculated the effect size *r* if a *t*-test, *F*-test, or *Z*-test

statistic was provided.[1] In such cases, the resulting effect size *r* is the equivalent of a partial correlation that accounts for the influence of any control variables that were used in the original analysis. In the case of *t*-tests that compared groups differing in their levels of CSP, or when authors provided information on means, standard deviations, and sample sizes that could be used together to calculate a *t*-statistic, we also converted such effects into an effect size *r*. All values were coded so that positive effects represent a financial benefit for high CSP and negative effects represent a financial cost for high CSP. Thus, the studies that were included could be summarized in terms of a single indicator of effect size, which enabled us to make direct comparisons across different studies.[2] In order to be conservative with respect to estimating the CSP-CFP association, some studies were included if the text mentioned that the association was tested but not statistically significant, in which case the effect size was presumed to be zero. All effect sizes were computed by the second author, or computed by a doctoral student in finance and checked by the second author, with an inter-coder reliability of .95.

Coding Procedure

We attempted to code the primary attributes of the empirical studies that the original authors of the empirical studies consistently reported. Either the second author or a doctoral student in finance coded each study, and both coded a subset of 50 studies in order to confirm sufficient inter-rater reliability for continuous measures and inter-rater agreement for categorical measures. The following five characteristics of each study were coded.

Type of CSP. Studies vary in the indicator used to measure CSP, sometimes opting to examine a specific dimension of CSP and sometimes opting for a broad appraisal of CSP. We sorted the collection of studies into one of the nine categories below, with the first five representing specific dimensions of CSP and the last four representing different approaches for capturing CSP broadly. If a single study reported results using measures that fell into different categories, we sorted each separate result into its most appropriate category, resulting in a total of 192 effects in 167 studies. However, we did not double-count by sorting any effect into more than one category. Inter-rater agreement for categorizing the type of CSP was .96. These are the nine categories, with the first five representing specific dimensions of CSP and the last four

[1] We used the formula *r* = sqrt [*F*/(*F*+df)] when *F*-test statistics were reported, *r* = sqrt [*t*^2/(*t*^2+df)] when *t*-test statistics were reported, and *r* = sqrt [*Z*^2/N] when *Z*-test statistics were reported (Rosenthal & Rosnow, 1991).

[2] Because it was necessary to express the results of each study using a common statistic, we unfortunately had to exclude 12 articles that reported effects using unstandardized coefficients, in cases when these coefficients could not be converted into an effect size *r* based on other reported information.

representing different approaches for appraising CSP more broadly.

(1) *Charitable contributions*. This included cash donations or the establishment of a philanthropic foundation. When the authors provided specific information, we excluded in-kind donations, given that these often serve instrumental purposes such as marketing or the disposal of obsolete inventory (Seifert, Morris, & Bartkus, 2003).

(2) *Corporate policies*. These studies examine a range of corporate policies, such as companies that divested from apartheid South Africa, firms that did business in apartheid South Africa and signed the Sullivan Principles for fair treatment of citizens, banks that offered low income loans, and defense contractors that agreed to a code of ethics.

(3) *Environmental performance*. This category includes measures of impact on the environment, whether objective or self-reported. We coded as objective any information indicative of corporate environmental practices assessed by or reported to third parties, such as the toxic release inventory, fines paid, and energy reduction expenditures. Objective data includes self-reported data that is under regulatory oversight by third parties (e.g., Superfund site liabilities). Self-reported data includes company insiders' subjective perceptions of their environmental performance. If a misdeed involved environmental practices, we included the effect in this category rather than in category four below. So too, if self-reported data referred to environmental performance, we included the effect in this category rather than in category six below.

(4) *Revealed misdeeds*. This includes the public announcement of arrests, fines, guilty verdicts in lawsuits, involuntary recalls, and other actions that indicate socially irresponsible behavior.

(5) *Transparency*. The release of information by a company itself in publicly available documents, such as annual reports, is used as an indicator of a company's CSP. This category includes all studies that use the disclosure itself—rather than the substance of what is being discussed in the disclosure—as the indicator of social performance. The underlying aim of these studies is to determine whether transparency pays. When researchers treated the specific content disclosed as the indicator of CSP, the study was coded in one of the above categories capturing that specific content (such as a misdeed).

Four categories reflect different ways researchers attempt to capture companies' CSP more broadly, rather than specific dimensions of the construct. These four forms of broad

appraisal include:

(6) *Self-reported social performance*. One method for capturing a company's social performance more broadly used surveys that ask companies to report their own conduct in response to journalists' or researchers' inquiries. The difference between this and the previous category, transparency, is that the present category involves a researcher or media outlet approaching the company for its self-report, rather than a voluntary and active decision on the part of the company to release information. For example, companies are asked to rate the importance of social responsibility and philanthropy (Goll & Rasheed, 2004). Self-reported social performance related to the environment is included only in the environmental performance category above.

(7) *Observers' perceptions*. Two methods of assessing corporate social performance rely on external observers. The first method relies upon observers' intuitive impressions of a company's CSP. Observers include industry insiders, executives at other companies, business school faculty members, and undergraduate business students. The most common form of observer perceptions involves ratings from the *Fortune* magazine database of most admired companies (60.0%).

(8) *Third-party audits.* The second method that uses observers to assess corporate social performance involves the systematic assessment of data by investigators who evaluate a company along a set of criteria. We refer to these as third-party audits. The most common examples are the Kinder Lydenberg Domini (KLD) index, which evaluates companies on eight dimensions, its precursor developed by the Council on Economic Priorities (CEP), and equivalent organizations in other countries. Other examples include the U.S. Department of Labor and *Working Woman* magazine, which both award recognition for companies whose labor policies are deemed especially progressive. We also include the assessments of investment fund managers, except in the case of assessments that yield a marketed investment vehicle, which we categorize instead as screened mutual funds. In the case of audits that reported results about one distinct category of CSP already listed above, notably the environment, we included those studies only within the distinct category.

(9) *Screened mutual funds*. A growing number of studies examine the performance of mutual funds that use screens to limit the companies included in the funds to those meeting certain criteria of social performance. These screens are considered indicators of included

companies' general CSP. We excluded those papers that tracked companies screened on the basis of their industry membership (e.g., gambling, tobacco) rather than on a company-level basis. We include those studies that compare entire stock performance indices, such as those comparing the Domini 400 versus the Standard & Poor's 500.

Type of CFP. We list the specific measures of financial performance examined by the original authors. Further, we coded measures into two broad categories: accounting-based measures of financial returns (e.g., Return on Assets, Return on Equity) versus market-based measures of financial value (e.g., stock returns, market/book value ratio). A small number of studies used measures of financial performance that did not fit this dichotomy (e.g., bond returns in D'Antonio, Johnsen, & Hutton, 1997; observer ratings of "economic performance" in Clarkson, 1988; dividend yields in Greening, 1995) and these were included in overall effects but not listed in the breakdown by category. Inter-rater agreement for categorizing CFP measures was .97.

Number of firms included. We recorded the total number of firms that were included in a study's sample. For two sets of studies, this was not always possible. First, for studies of the stock market reaction to specific events, the authors often reported the number of events rather than firms, and a given firm could generate more than one of the events. Second, studies of screened mutual funds rarely listed the number of underlying securities. However, some studies compared a specific portfolio of companies to a benchmark consisting of an entire marketplace, in which case we noted as the number of firms the specific portfolio that the authors described. Inter-rater reliability for determining the number of included firms was 1.00.

Timing of CSP and CFP measurements. We recorded the year or range of years for both the CSP and CFP measures. Although many studies had a stated goal of examining the influence of CSP on CFP (indicating a particular direction of causality), there are three main choices regarding the timing of these measures: the measure of CSP precedes the measure of CFP; the measure of CFP precedes the measure of CSP; or they are measured concurrently (operationally defined as occurring within 12 months of each other). Event studies—in which researchers observe the stock market reaction to discrete news announcements—were coded as having the CSP measurement preceding CFP because the timing of both CSP and CFP were specified precisely in such studies. We coded as concurrent those studies in which the measurement of CSP and CFP were nested. For example, Alexander and Buchholz (1978)

measured CSP in 1971-1972 and CFP for the period 1970-1974. We also coded as concurrent any studies of screened mutual funds that were actively managed, with the logic that fund managers continually monitor the current social performance of firms included in their portfolios. However, we coded CFP to precede CSP in those studies in which researchers conducted retrospective analyses of the financial performance of stocks that were later included in screened funds. Inter-rater agreement for the timing of CSP and CFP measures was .94.

Control variables. We noted whether control variables were incorporated into the estimate of the CSP-CFP effect size. We coded for the most common control variables of industry, firm size, and risk. Some studies are coded as having no control variables even though the authors did include controls in the study because the effect size for the CSP-CFP value was taken from a zero-order correlation matrix that did not account for the effect of control variables. In addition, we coded the methodological attribute of whether effect sizes resulted from event studies. These effects are coded as including all control variables because, in event studies, each company serves as its own matched control when its stock price is compared before versus after a news announcement.

Industries can vary in their social responsibility practices. Some industries may be considered more "dirty" than others, such as heavy manufacturing or chemicals; some industries may be growing versus declining; and stakeholders may vary in the degree of regulation and scrutiny to which they subject different industries (Bowman & Haire, 1975; Griffin & Mahon, 1997; Spencer & Taylor, 1987). Reporting rules that apply to entire industries can promote responsible behavior, but can also constrain it (i.e., mandating strict itemization for charitable donations). We considered industry to be controlled either when it was explicitly entered as a control variable in the authors' original analyses, when it was incorporated into the research design using samples matched on industry, or when the study sampled from within a single industry.

Firm size is a worthwhile control variable because larger firms may have greater resources for social investments, attract greater pressure to engage in CSP or—just the opposite—succumb to a diffusion of responsibility (Wu, 2006). Wu's (2006) recent review regarding firm size indicated a small positive relationship between firm size and CSP and between firm size and some measures of CFP. We considered firm size to be controlled either when it was explicitly controlled in the original analyses or when the study sampled from firms

of similar sizes (e.g., the *Fortune* 500 focus on revenues, or assets, or the total number of employees).

Firm risk is also an important factor to control because stable firms with lower risk generally appear more likely to engage in CSP (Alexander & Buchholz, 1978; Brown & Perry, 1994; Chen and Metcalf, 1980; Cochran & Wood, 1984). Moreover, CSP has been linked to the risk profile of firms (Orlitzky & Benjamin, 2001). Indeed, given the strong relationship between risk and financial returns, O'Neill, Saunders, & McCarthy (1989) found that their CSP-CFP correlations disappeared for risk-adjusted financial performance measures. We considered risk to be controlled when it was included in the model explicitly as a control variable (e.g., regression models or the CAPM financial model), when authors used a risk-adjusted measure of CFP or, in the case of portfolio analyses, when the authors or mutual fund managers who constructed the portfolio selected companies based on risk levels equivalent to a control sample or the larger stock market.

Finally, we coded whether effect sizes resulted from "event studies"—in which the stock price of a given company is observed before and after a specific event or announcement—regardless of which of the nine specific types of CSP was represented by the event. These studies are unique in that they are unusually precise because companies serve as their own matched control and, when done correctly (McWilliams & Siegel, 1997), confounding events are excluded. Event studies also isolate a specific mechanism for any association between CSP and CFP, namely, the stock market's reaction to news regarding a firm's CSP. Inter-rater agreement across all controls was .92.

RESULTS

The studies included in this meta-analysis, the key attributes of each study, and the effect size *r* for the CSP-CFP association in each study are available from the authors upon request. Table 2 summarizes the results of our analyses, including the effect size overall, by timing of the CSP and CFP measures, and by type of CFP measure, with all of these listed for all studies and separately for each CSP category. Table 2 also lists the number of studies and total number of companies in each category of study, the significance test for the size of the CSP-CFP effect (Rosenthal, 1991), and the results of a heterogeneity analysis that indicates whether there are substantial differences in effect sizes across the various studies (Hedges & Olkin, 1985; Rosenthal, 1991).

Insert Table 2 about here

The diversity of CSP indicators and measures raises questions about whether these all capture a single underlying construct. However, because of the widespread interest in corporate efforts to do good and the contention that all indicators and measures of CSP capture, in some way, the underlying propensity of a company to do good, we did calculate a single, cumulative effect for all 192 effects. This analysis reveals a mean effect size of r=.132. As described above, in the case of studies reporting the results of multivariate analyses, these effects are the equivalent of a partial correlation that accounts for the effects of control variables. The median effect size (r=.082) and weighted average effect size (r=.101), which accounts for the size of each study, were lower than the mean effect size. That suggests that the overall mean is inflated by large effect sizes from a small number of studies that used relatively smaller samples of companies. When effect sizes are compared across the types of CFP measures, CSP generally appears to predict accounting-based measures (r=.180) better than market-based measures (r=.104). That said, market-based measures may be more appropriate for gauging the impact on shareholder wealth (Mackey, Mackey, & Barney, 2007).

To examine the potential influence of moderator variables, we conducted additional analyses. For results aggregated across all types of CSP, we did not find an influence on effect sizes from including (or excluding) control variables, nor were there large aggregate differences between studies in which the timing of CSP measures preceded, followed, or concurred with measures of CFP. However, for each of the four studies that included all three types of timing (Boyle, Higgins, & Rhee, 1997; McGuire, Sundgren, & Schneeweis, 1988; Preston & O'Bannon, 1997; Seifert, Morris, & Bartkus, 2003)—which arguably offer the most precise comparison—there is a monotonic fall in the effect size from CFP→CSP (average r=.275) to concurrent (average r=.120) to CSP→CFP (average r=.080). All four studies revealed this same pattern. A binomial probability test suggests that this ordering of responses from the highest to lowest CSP-CFP effect size is unlikely to occur by chance alone. Given that there are six different ways to place the three types of timing in order from the highest to lowest, the chance of each study

showing this pattern is 1/6. The probability that all four studies would conform randomly to this pattern is less than eight in ten thousand.

Event studies—which map precisely the stock market effects of releasing news regarding CSP—appeared to have slightly larger effect sizes than those of conventional studies (r=.175 versus r=.118; median effects r=.189 versus r=.067). In event studies, the impact of a company's social performance is measured through a comparison of the stock market's valuation of that company's stock preceding and following the announcement of positive or negative news. The use of event-study methodology in research on the link between CSP and CFP has been criticized (McWilliams & Siegel, 1997), most notably because these studies have used long event windows, introducing the possibility that other events account for stock price movement, and because, indeed, these studies have not adequately controlled for other confounding events that could account for abnormal returns. Nonetheless, the consistency of our results for event studies suggests that the market may read the announcement as new information indicating future financial performance. The market may infer the company's social performance to be an indicator of the quality of management, to augur consumer demand for the firm's products and services as a result of the company's social performance, to promise higher or lower costs incurred from other stakeholders, or to provide greater insurance against damaging events (Freedman & Stagliano, 1991; Peloza, 2006). Social performance may also attract demand for the stock among investors with strong preferences for social responsibility (Mackey, et al., 2007) or among market investors in general who believe that other investors will adjust their demand for a firm's shares, for example if the company is now worthy of inclusion or exclusion from socially screened funds. Alternatively, the market may simply assume that doing good generates financial gains through some unspecified mechanism.

To investigate the relationship between CSP and CFP with greater precision, we sorted studies into the nine categories described above and analyzed the cumulative effect within each category. Effect sizes differed significantly across these categories, $F(8, 183) = 4.12$, $p<.001$. We summarize the results by category in Table 2 and below, reporting the overall effects as well as any noteworthy influence of moderator variables for those analyses with sufficient power to warrant them.

Charitable Contributions

Thirteen studies examined the effect of corporate financial performance upon charitable contributions. The average *r* was. 239. The effect was stronger when CFP was measured prior to the philanthropy (*r*=.332) or after (*r*=.292) than when the two were measured concurrently (*r*=.198). Studies using accounting measures of financial performance showed larger effects (mean *r*=.281, median *r*=.203) than those using market-based measures (mean *r*=.147, median *r*=.055). Taken together, these findings suggest that slack resources promote generosity towards charitable endeavors (Seifert, et al., 2003). Companies are more able or willing, or they face stiffer pressure, to donate when they do well.

Corporate Policies

Corporate policies are the one form of social responsibility without a significant association to financial performance (*r*=.019, *ns*, weighted *r*=.038, median *r*=.005). However, there is a trend in which prior financial performance does predict future socially responsible policies (*r*=.111), but concurrent (*r*=.-.031) and CSP→CFP (*r*=.011) studies do not reveal any meaningful trends.

Environmental Performance

A large sample of 44 studies examined environmental impact, including objective measures such as the toxic release inventory, fines paid, and energy reduction expenditures, as well as subjective perceptions of environmental performance. Effect sizes were larger for self-reported (*r*=.190) than for objective environmental measures (*r*=.095).

Revealed Misdeeds

Announcements of negative events, such as regulatory violations, lawsuits, and fraud, were the topic of 16 studies, generating an average *r* of .223, with a smaller *r*=.104 average when weighted by sample size, due largely to the result of one outlier (Jarrell & Peltzman, 1985; *r*=.563, *N*=22). These findings are consistent with Frooman's (1997) earlier meta-analysis, finding that the stock market reacts negatively to news announcements that a company has done something socially irresponsible. Although companies are punished at the time misdeeds are exposed (*r*=.227) and afterward (*r*=.239), a company's financial performance—whether good or bad—does not predict future revealed misdeeds (*r*=-.004). When misdeeds are revealed, the market may interpret them as an indicator that the firm will incur greater costs from penalties or from stakeholders less willing to cooperate, or will suffer lower revenues due to reduced future demand for the firm's products and services resulting from the company's damaged reputation in

consumers' eyes. Exposed misdeeds may also be read by the market as an indicator of poor judgment among top managers, or of imminent decline in demand for the stock as investors with a preference for responsible companies shy away from it.

Of course, this effect only captures the wealth effects for those caught doing some misdeed. The wages of unrecognized sin may be quite handsome. Further, the effect is larger for market-based measures (r=.239) versus accounting-based measures (r=.113), suggesting that the mechanism for this effect is more likely to be the reaction of investors, rather than revealed information about the health of corporate operations. This weak link to an accounting performance measure is consistent with Staw and Szwajkowski's (1975) work. They found that the influence of having a munificent environment on corporate crime was related to the munificence of the industry environment, rather than that of the individual firm.

Transparency

Fourteen studies examined the influence of transparency. The average effect size r was .078 and median was r=.024. Effect sizes are larger for those studies that control for firm size (r=.102 versus r=.034), but smaller for those studies that control for industry (r=.046 versus r=.156). The slight positive trend in the mean but not median value can be attributed largely to two studies (Anderson & Frankle, 1980; Verschoor, 1998) that did not control for industry. Results were stronger for CSP measured before CFP (r=.191) than for CFP measured before CSP (r=.079) or concurrent measurement (r=.029). Taken together, these results suggest that the market reacts positively to company disclosures regarding socially responsible behavior.

Self-reported Social Performance

For nine studies using self-reported social performance, the average r was .210 (weighted r=.128). The largest effects were found in one study in which executives were asked to report both social and financial performance of the company in a single survey (Reimann, 1975, r = .570, N=19) and in one study analyzing the relationship between responses of rank-and-file employees and the company's financial performance of the previous five years (Hansen & Wernerfelt, 1989, r=.482, N=60). Effect sizes were smaller for studies that controlled for risk (r=.039 versus r=.292), but larger for studies that controlled for industry (r=.312 versus r=.076). The three of these studies that controlled for risk (Aupperle, Carroll, & Hatfield, 1985; O'Neill et al., 1989; Starik, 1990) together reveal an average effect of r =.039. There did not appear to be

an overall influence based on timing, given that the CSP→CFP association of *r*=.272 was based on a single study, versus *r*=.200 for CFP→CSP and *r*=.171 for concurrent measurement.

Observers' Perceptions

For the 25 studies that use observers' perceptions, the average *r* is .287. Studies using accounting measures of financial performance reveal a stronger relationship (*r*=.320) than those using market-based stock performance (*r*=.190). The effect size is smaller for studies that control for risk (*r*=.167 versus *r*=.316), but larger for studies that control for industry (*r*=.440 versus *r*=.131). When analyzed according to timing, the findings reveal a stronger relationship between CFP that was measured prior to CSP (*r*=.328) than either concurrent CFP and CSP (*r*=.279) or CSP measured prior to CFP (*r*=.157). In general, these studies show that there is a reasonably sized relationship between corporate social performance, as measured by observers' perceptions, and corporate financial performance. However, the results suggest that the strongest direction of causality goes from CFP to CSP, which is consistent with the possibility that observer perceptions are biased by a company's recent financial performance (Brown & Perry, 1994).

Third-party Audits

The 28 studies that rely on third-party audits to assess CSP reveal an average *r* of .080 and an average *r* weighted by sample size of .037. Studies that used accounting measures of financial performance had an average *r* of .114 versus .059 for those using market-based measures of financial performance. When analyzed according to temporal direction, the findings reveal a stronger relationship when CFP was measured prior to CSP (*r*=.142) compared to concurrent measurement (*r*=.041) or measuring CSP prior to CFP (*r*=.096). Taken together, these 28 studies suggest a mild relationship between CSP and CFP, but this link is unduly influenced by large effect sizes among studies with smaller samples (e.g., Shank, Manullang, & Hill, 2005; *r*=.261, *N*=11) and appears to flow primarily from CFP to CSP, rather than the other way around.

Screened Mutual Funds

A growing number of studies examine the performance of mutual funds that use screens to limit the companies included in the funds to those that meet certain criteria of social performance. The increasing number and sophistication of these studies warrant a detailed review by financial economists. Our analysis of 29 studies in this category reveals an average *r* of .024 (median *r*=.021). Within this group of studies most effects were negligible, but there were also several outliers showing gains for socially screened mutual funds relative to other

funds (e.g., Luck & Pilotte, 1993; r=.324) and others showing losses for screened funds relative to comparative benchmarks (Schroder, 2003; r=-.515). Because the number of underlying companies included in these funds was typically not reported, we could not conduct significance testing nor calculate weighted means.

Summary Patterns

A formal meta-analysis like ours is preferred to a simple count of the positive, negative and non-significant effects (Hunter & Schmidt, 1990). Nevertheless, when taken together, it is interesting to observe that across all of the effects we coded from these studies, 58% are a non-significant relationship, 27% a positive relationship, and 2% a negative relationship between CSP and CFP. An additional 13% did not report sample size, so it was not possible to test for significance. The meta-analytic results and the results of the vote counting procedure corroborate each other in this instance—companies do not appear to suffer financially for their socially responsible investments.

Critics of meta-analysis have argued that biases in the publication criteria of editors are reflected in biased samples of studies used by meta-analytic researchers. In particular, statistically significant results are more likely to be published (see Rosenthal, 1991). We address this "file drawer problem" in two different ways. First, we gathered unpublished manuscripts through informal efforts, as described above, in order to access studies from researchers' file drawers. Second, we computed a sensitivity analysis to measure just how many items must languish in file drawers before the results of this meta-analysis would be affected. Using Rosenthal's (1991) formulas, we found that it would take at least 15,767 studies with an average effect size of zero for the CSP-CFP association to no longer be statistically significant at p=.05. That is, it would require over 82 times more null effects than we have here to render the current results non-significant.

The sensitivity analysis gives us some confidence in these results. However, the absolute size of this overall CSP-CFP effect is considered to be "small": "small" effects are defined as those around r=.10; effects are considered to be "medium" if they are about r=.30 and "large" if they are greater than r=.50 (Rosenthal & Rosnow, 1991: 446). We did a second sensitivity analysis to address the number of studies that would need to languish in file drawers to bring the average effect up to the "medium" level. It would take at least 321 additional studies with a medium-to-large average effect size of r=.40 for the overall CSP-CFP association to reach the

criterion for a medium effect size of *r*=.30. The 321 medium-to-large effects needed to boost the present small effect to just barely medium-sized would amount to 1.67 times more effects than the total body of 192 currently included. Using a more liberal criterion, it would take at least 130 additional effects with *r*=.40 to reach a moderate effect size of *r*=.24, or 68% more studies than the current pool of available research from the last 35 years. To underscore just how unlikely this might be, only 18 of 192 effects (9.4%) in our current dataset reach *r*=.40 or above.

DISCUSSION

After thirty-five years of research, the preponderance of evidence indicates a mildly positive relationship between corporate social performance and corporate financial performance. The overall average effect of *r*=.132 across all studies is statistically significant but, on an absolute basis, it is small (Rosenthal & Rosnow, 1991), particularly considering the weighted average of *r*=.101 and the median value of *r*=.082. These meta-analytic results lead to four broad sets of implications.

Financial Impact of CSP

Companies do not seem to be richly rewarded for engaging in CSP. Friedman's (1970) concern about theft, however, may be misplaced: companies are not overtly penalized for CSP investments. Penalties only accrue to firms that do wrong and perhaps only if they are caught. In sum, the financial implications of CSP can be best understood as an interrelated set of three findings.

First and most clear, revealed corporate misdeeds are costly to companies. Our analysis of the financial impact of wrongdoing in 16 studies echoes Frooman's (1997) earlier meta-analytic result. Although the anecdotal evidence about recent scandals highlights just how grave the consequences can be for companies and their executives who are caught doing wrong, it is very difficult to estimate the likelihood that these kinds of misdeeds will be unearthed (Schnatterly, 2003). Dubious firms may risk these sanctions because crime just might pay.

Second, on the other side of the ledger—doing good—our findings indicate that CSP does not systematically destroy shareholder value. The overall effect of CSP on CFP is positive. Only 2% of the individual studies reported a significant negative effect. Across our analyses by CSP type, the average effects were nearly always positive and the occasional negative values were negligible. There may well be less affirmative support for CSP's positive financial impact than there is for the negative financial impact of doing wrong, but managers who dedicate

corporate resources to social performance do not seem to be imposing a direct cost on their shareholders. Companies can do good *and* do well, even if companies do not always do well *by* doing good. This result provides some legitimacy for CSP when high-status public figures, such as Kofi Annan (2001), so publicly call for CSP investments (Walsh, 2005).

Third, our findings suggest that CFP would seem to be an unlikely rationale or justification for pursuing CSP. The small overall relationship between prior CSP and subsequent CFP, the varied results across categories of CSP, and questions about causal direction all suggest that more lucrative financial impact might attend investments other than CSP, providing better returns on the next marginal dollar of corporate spending. Given these relatively low returns on investment, unearthing alternative motivations for CSP warrants systematic inquiry, as we suggest below.

Variation

CSP has come to encompass multiple dimensions, both in its theoretical specification and in its empirical operational definition. Our findings indicate that those dimensions bear different relationships to CFP. Relative to the overall effect size, the association is stronger for charitable contributions, revealed misdeeds, self-reported social performance, and observer perceptions. The CSP-CFP relationship is weaker for corporate policies, transparency, third-party audits, and screened mutual funds.

Stronger results. In the case of charitable contributions, firms that performed well—and particularly those with strong accounting performance—tended in the future to donate more money and create more philanthropic foundations. For revealed misdeeds, we found no evidence that poorly performing companies are more likely to engage in disreputable behavior. However, when disreputable behavior is revealed to the public, it results in current and future penalties in financial performance, particularly by the stock market. In the case of self-reported social performance and observer perceptions, the CSP-CFP relationship may reflect a vulnerability to halo biases such that CSP assessments are consistent with financial performance (Brown & Perry, 1994).

Weaker results. Socially responsible corporate policies appear to be somewhat more likely for companies that enjoy past financial success, but the presence of those policies does not predict current or future financial success. Transparency appears to be valued by the market, but

third-party audits and screened mutual funds reveal effects of small magnitude, in particular when CSP is measured first.

Signal in the noise. This mixed set of effects reveals just how complex the reality of the CSP-CFP relationship may be, and just how difficult it is to measure and assess that relationship. The complex reality emerges when results are considered in terms of the causal mechanisms they suggest. Effects showing a positive relationship linking prior charitable contributions, revealed misdeeds, and transparency to subsequent CFP suggest that it is the appearance of CSP, rather than its substantive impact on a company's operations, that affects subsequent financial performance. Yet the larger effect sizes for observer perceptions and self-reported social performance, compared to those for third-party audits and mutual fund screens, indicate that appearances can be deceiving. Reporters and observers alike may succumb to biases that confound CSP with CFP. The impact of environmental performance on CFP may result from the attractiveness of the company to shareholders, customers, and employees, but it may also be a function of the substantive reduction in costs produced by environmental performance. Moving in the other causal direction, effects showing a positive relationship between prior financial performance and subsequent charitable contributions and corporate polices suggest that wealthier firms have the slack resources to engage in these practices, or that they encounter greater pressure to do so. So too the link between prior CFP and self-reported social performance and third-party audits suggests that more prosperous firms do more—or perceive that they do more—–of what third-party auditors are likely to monitor.

The variation in results across types and measures of CSP may itself be the most important signal to emerge from the 35 years of research on the connection between CSP and CFP. That variation tells us how complex the relationship might be to unravel, which carries important implications for how future research might make progress in wrestling with that complexity. We turn to those implications below.

Direction of Causality

We find relatively consistent evidence that the link is as strong, if not stronger, when CFP predicts subsequent CSP than the reverse causality, particularly for those studies including all three types of measurements, and for the areas of charitable contributions, observer perceptions, and third-party audits. While these results reinforce findings from two prior meta-analyses (Allouche & Laroche, 2005; Orlitzky, et al., 2003), these findings tend to get overlooked.

Motivation for studying the link may revolve around efforts to establish the positive financial effects of CSP, but the evidence of an association should direct our attention equally to understanding how CFP ultimately gives rise to CSP, and not just the reverse. Although accounts exist of *why* CFP makes subsequent CSP possible—slack resources or opportunism (Preston & O'Bannon, 1997)—little has been written about the mechanics of *how* companies with strong CFP end up engaging in greater CSP. That too has implications for future research, which we elaborate below.

Assessing CSP

Beyond the relationship between CSP and CFP, our meta-analysis permits assessment of CSP along three dimensions: its legitimacy, its value, and its effectiveness. First, is CSP legitimate—is it a legitimate activity for society's economic institutions? Despite some normative opposition to the use of corporate resources to advance social purposes, our results indicate that no damage is done to the purported owners of those resources. This means that CSP cannot be delegitimized on economic grounds. Our findings may stop short of offering economic grounds for a heavy investment in social performance, but by revealing no systematic negative effects on CFP, our findings do suggest that it is not economically illegitimate for companies to engage in CSP. It would seem that on economic grounds, the positive findings of this meta-analysis—however mild and attenuated those findings might be—support the legitimacy of CSP.

Second, is CSP of value for companies? Is it worth their effort and investment? While CSP may not transgress economic duties, it is open to question whether or not valuable benefits accrue to companies that engage in CSP. The mild effect sizes for CSP open the possibility that other areas of corporate activity are likely to have larger effects on financial performance. For example, Wieser's (2005) meta-analysis of research and development found an average 29% return on research and development, with a lower bound of 7%. Nonetheless, we suspect that well performing firms ignore CSP at their peril. Failure to invest in CSP can leave a company hampered. As just one example, consider Wal-Mart's late awakening to CSP. It has generated enough opponents to stall its efforts to buy a bank and launch a credit card business (Leonhardt, 2006). Post, et al. (2002) spoke at length about how a firm needs society's license to operate. Given the positive CFP→CSP link, it may be that wealthy companies risk their "operator's license" if they avoid such investments (Campbell, 2007).

Third, is CSP effective? It may be legitimate for companies to concern themselves with CSP, and the returns to companies may make some level of commitment worthwhile, but are corporate efforts in social performance effective in achieving benefits for society? Here, unfortunately, research remains meager, and CSP-CFP studies say little, leaving perhaps the most fundamental questions unexplored: for whom are corporate efforts to do good effective and for what purposes are company efforts effective?

In all, CSP proponents and opponents alike will find evidence for both joy and concern in the implications of the results reported here. For proponents, the positive relationship found across most categories of studies, no matter its magnitude, provides an economic defense for CSP. Even CSP mavens are excited by the financial implications of these results. In an article entitled "Holy Grail Found: Absolute, Definite Proof CSR Pays Off," Kelly (2004:5) took stock of the earlier findings (Orlitzky et al., 2003) and declared that socially responsible investors can cash in on this knowledge: "Knowing that responsible companies outperform, savvy investors have a head start in locating future winners before the broad market does." Yet the results are not strong and, across the nine categories, they often recede even further when the proper controls are put in place or when only the effect of CSP upon subsequent CFP is examined. Rather than a salubrious convergence of doing good and doing well, our meta-analytic results may indicate that CSP advances neither objective. A mild effect size may be the product of corporate efforts to do just enough CSP to avoid running afoul of social critics but not enough CSP to incur significant costs that would incite economic critics.

For opponents, the small effect sizes place CSP investments in a suspect light. The stronger relationship between preceding CFP and subsequent CSP, when combined with the weak CSP→CFP result, suggests that such investments might be a waste of free cash flow. These monies might be put to other more productive uses or returned to the shareholders if no other positive Net Present Value investments are available. On the other hand, it may be that in this era of intense corporate scrutiny, CSP investments do provide some latitude for the firm to pursue its wealth objectives.

Ironically, 167 studies later, managers may be exactly where they were in 1972: seeking criteria to judge when CSP makes sense and guidance about how to advance both CSP and CFP, if they are both worthy of pursuit but not entirely consistent. The continuing quest to substantiate or repudiate a link between CSP and CFP may be of little value. While the quest is seductive, it

may be time to let this particular question rest. There may be other aspects of the CSP-CFP relationship that are now more important to investigate.

FUTURE DIRECTIONS

If fundamental tensions persist and major questions linger, what are the implications for subsequent research? One option would be to drop the topic altogether. If CSP contributes little economically, then those caught in the zeitgeist of investor capitalism might argue that it is no longer worthy of attention. However, the mere fact of CSP should puzzle these proponents (see Esrock & Leichty (2000) and Maignan & Ralston (2002) for documentation of companies' CSP activities). If CSP has limited financial impact, what explains companies' investments in it? In addition, some scholars will challenge the premise that CSP has limited economic value (Barnett, 2007; Orlitzky et al., 2003). They might argue that if only the relationship were better specified and operationally defined, then stronger results would emerge or understanding would develop regarding contingencies moderating the relationship. Therefore, we see two paths forward. The well-traveled one may yield some additional insight, but we fear it will exact a high opportunity cost. After all, there are only so many people who investigate these questions. It may be time to take the path less traveled. This other path invites researchers to examine broader questions, prompted by our meta-analytic results, about the relationship between the corporation and society. We consider each path in turn.

The Well-Worn Path of Refinement

Virtually all past reviews of the CSP-CFP relationship call for more and better research into the CSP → CFP relationship (Margolis & Walsh, 2001:20-24). We will not make that call but we acknowledge that other scholars may be drawn to continue the quest. Future efforts to examine the link should endeavor to do it well. Anyone who hopes to publish the 168th study must meet four criteria. First, their data about CSP should consist of behavioral measures, such as quantifiable outputs or third-party audits, and the assessment process for those must be clear and open to validation. We suggest that researchers find alternatives to the convenient yet difficult to validate measures such as the *Fortune* ratings of admired companies and company insiders' self-reported impressions. Second, the study must control for at least industry, risk and size, if not R&D spending and advertising expenditures (McWilliams & Siegel, 2000). Third, researchers need to assess CSP and CFP at different time periods; the direction of causality must be theoretically articulated and empirically assessed. In our data, only 34% of effects (66 of 192)

featured measures of CSP that temporally preceded measures of CFP, surprisingly low if the aspiration has been to establish a sequential link. Fourth, the CSP→CFP causal mechanisms need to be articulated and tested. Too many studies speculate about mechanisms that explain results or end with a call to investigate them. It is time to study mechanisms systematically. CSP investments might help to recruit a high quality workforce (Backhaus, Stone, & Heiner, 2002), attract a unique customer base (Sen & Bhattacharya, 2001), or provide insurance against some unforeseen crisis (Schnietz & Epstein, 2005). CSP might bear upon CFP in some other way as well. Although it is important to test the conditions under which CSP is more likely to contribute to CFP (Barnett, 2007; Mackey et al., 2007; Rowley & Berman, 2000), it is as essential to document the causal chain of connection. No matter how well measured the constructs, research must move beyond simply assessing the magnitude of the CSP-CFP relationship. Research must now show how CSP comes to bear upon CFP.

With these minimum standards in place, research on the link between CSP and CFP should improve. But toward what end? Some scholars (Orlitzky et al., 2003) see merit in further studies, especially those that examine the conditions under which CSP will influence CFP (Barnett, 2007; Rowley & Berman, 2000). In contrast, we wonder whether ongoing research efforts might be better devoted to other questions. Another set of CSP-CFP studies is unlikely to change the general trend reported here, as our sensitivity analyses indicate, let alone convince the opponents of the value of CSP (Tetlock, 2000).

A New Path of Exploration

Perhaps Bragdon and Marlin's (1972) hope to stop sparring with economics can be realized these 35 years later. The core dilemma may no longer be how to pursue social good when it is seen to come at the expense of doing well. Globalization has turned up the competitive heat on firms, but it has also brought them face-to-face with human misery of all kinds. Corporations face public pressure to redress far-reaching societal problems (Margolis & Walsh, 2003) while keeping pace with market pressures to produce competitive products and financial pressures to reduce costs and improve returns. The contemporary challenge facing managers and scholars alike is therefore to learn how companies can navigate in a world that demands a firm do good *and* do well. Understanding how companies endeavor to do both, side-by-side, might best command scholarly attention in the years ahead. If the fundamental objective is to understand the coexistence of CSP and CFP, then three compelling questions deserve as much

attention as any effort to determine if and when CSP pays: (1) Why do firms pursue CSP? (2) How do companies pursue CSP? (3) How do firms pursue CSP and CFP simultaneously?

Why do firms pursue CSP? Consistent with past meta-analyses, we find that companies with superior CFP are more likely to engage in CSP (Allouche & Laroche, 2005; Orlitzky et al., 2003). What motivates these companies to engage in CSP? By understanding why and how the firms more likely to engage in CSP—those high in CFP—do so and what benefits arise (for them and for their intended beneficiaries), researchers may generate insight into why and how companies in general should engage in CSP.

Research could begin by examining what propels companies that do well to attempt to do good, perhaps even comparing them to other successful companies that do not do as much. At least four motivations seem plausible: risk mitigation, external expectations, generalized reciprocity, and guilt. As firms get bigger or more prosperous, reputation risks are more costly. CSP may be a means of reducing risk—a means of buying reputation insurance (Peloza, 2006). Indeed, well-known companies often find themselves to be targeted by social activists (Spar & LaMure, 2003). Second, as firms become more prosperous and thus more prominent, external expectations of their generosity may escalate, leading to an increase in appeals and pressure to give. The CFP→CSP results we found also suggest that society may not be inclined to turn to struggling firms for help. A firm's first order of business is to create a high quality good or service and sell it at a fair and profitable price. Only successful firms may be asked for additional social investments (Campbell, 2007). Third, executives within a financially successful firm may initiate CSP due to a sense of reciprocity. Much as successful individuals begin to assume they owe something to those around them, so too may those who run successful companies (Frank, 2007). A fourth motivation puts a harder edge on reciprocity. Guilt, rather than gracious reciprocity, may also propel companies that do well to endeavor to do good. Guilt has been shown to arise from distress over inequity—when people "benefit more than others do" and feel unduly rewarded—and it motivates efforts to reduce those inequities (Baumeister, Stillwell, & Heatherton, 1994: 260). Guilt about reaping rewards without compensating others equitably may trigger managers at firms high on CFP to engage in CSP.

As managers' motivations gain attention from researchers, there is bound to be variance. Why do some companies in an industry lead (e.g., Target) and others follow (e.g., Wal-Mart)? Some firms resist these pressures altogether. Why do companies in an industry shy away from

these investments (e.g., ExxonMobil), while others trumpet their investments so loudly (e.g., BP and Shell)? Much remains to be learned.

How do firms pursue CSP? Beyond the motivations to pursue CSP, systematic understanding of how companies pursue CSP is essential. A first vein of research would investigate how companies establish a general commitment to CSP. How does CSP gain traction within companies? What rationale within the company do managers use first to "sell" (Andersson & Bateman, 2000; Bansal, 2003) and subsequently to explain (Sonenshein, 2006) their involvement in CSP? A second vein of research would examine the specific commitments that companies make. Descriptive research needs to be done to catalogue the sorts of activities and initiatives in which companies engage, documenting the methods companies use to engage in CSP and unearthing the factors that may account for variance in corporate activities and practices. Esrock and Leichty's (2000) and Maignan and Ralston's (2002) look at firms' self-presentations on their web pages is just a start. This descriptive research effort would set up theory-building research into how companies pursue their CSP investments, augmenting the early work that points to geographical and network influences on CSP choices (Galaskiewicz, 1997; Marquis, Glynn, & Davis, 2007).

Doing good and doing well. The mechanics of how companies engage in CSP implicate important and often overlooked managerial questions. Thirty years ago, Merton (1976: 88) wondered, "Does the successful business try first to profit or to serve?" It is a question, he observed, that "must at one time or another plague every corporate executive." The simple answer "do both," Merton recognized, "escapes the dilemma by swift flight from it," begging the question of "*how* to do both in appropriate scale." The challenge for companies lies in doing well and doing good (Margolis & Walsh, 2003; Paine, 2002; Porter & Kramer, 2006; Vogel, 2006), whether it is finding ways for the two to converge or finding ways to manage the tensions, real or only apparent, that managers experience in trying to do both.

It is essential for future research on CSP to investigate how organizations and managers do both. What are the structures, strategies, processes, and practices that companies and the individuals within them use that enable them to do both? Akin to research on ambidexterity (Tushman & O'Reilly, 1997), which explores how companies pursue multiple and sometimes competing objectives, future research can identify the organizational conditions and practices that prove most effective for facilitating coexistence of efforts to do good and do well, and which

organizational attributes impede those endeavors. What matters are the organizational practices that advance the impact of CSP investments not only upon the company itself (Bartel, 2001; Porter & Kramer, 2006) but also upon the intended beneficiaries of those investments (Margolis & Walsh, 2003). Research that investigates how to do good and do well can accomplish so much more than simply extending the 35-year quest for a link between the two.

LIMITATIONS

Although we have tried to provide the most comprehensive review to date of empirical research reporting on the relationship between CSP and CFP, several factors limit the conclusions that we can draw. First, the meta-analysis is limited to the collection of studies that are available for inclusion. That is, we can only examine what is and not what should be. Our findings are qualified by all of the same limitations of the underlying empirical work that it incorporates. We would have welcomed research with better measures, more control variables, and a greater sensitivity to temporal sequencing. They just do not exist. We are also limited by the possibility that our collection of studies excludes unpublished work, although our efforts to obtain such work and the results of our sensitivity analysis mitigate this concern. Second, as we discussed above, some studies had to be excluded from our analysis because it was not possible to summarize their results in terms of a consistent effect size *r*. Third, we were prevented from including significance tests on the influence of measurement timing or type of financial variable, given the inconsistent overlapping nature of these variables. That is, in the case of financial variables, some studies included only market measures, some included only accounting measures, and some included both types. This made straightforward comparisons non-independent and thus statistically problematic.

A further limitation of our study is also related to the statistical independence of data. We were unable to include a number of advanced meta-analytic techniques—such as controlling for unreliability in the effect size estimates—because many studies sampled from the same underlying pool of companies. For example, large U.S. firms such as Johnson & Johnson or IBM may have been included within dozens of our studies. Many studies used exactly the same data sets, such as the *Fortune* 500 or Domini 400 firms. Some previous meta-analytic reviews of this research area have even exacerbated this problem by including multiple effect sizes within a single article as if they were separate studies, for example counting a study with five years of data and three types of accounting measures as if it were 15 studies (Orlitzky et al., 2003; Wu,

2006). We did this only in the case of studies reporting distinct types of CSP, in which case we reported studies as if they contained two effects or, at most, four (i.e., Griffin & Mahon (1997) included charitable contributions, environmental performance, observers' perceptions, and third-party audits). Strictly speaking, meta-analysis assumes that each study represents an independent sample (Judge, Thoresen, Bono, & Patton, 2001; Rosenthal, 1991) and, as such, the results of the present paper—as well as other reviews of this topic—should be considered approximate and descriptive rather than precise statistical tests. Fortunately, although violations of statistical independence make significance tests highly suspect, the effect sizes themselves remain unbiased estimates of the true CSP-CFP relationship (Rosenthal, 1991). The main goal of the present study was to examine the absolute size of estimated effects rather than dwell on their relative significance levels.

CONCLUSION

The sustained pursuit of a link between CSP and CFP may well reflect a deeper and intensifying quest for meaning. That quest for meaning, Robert Merton (1976) observed, becomes particularly fierce as societies achieve material security and organizations are asked to deliver more than material welfare. Merton (1976: 88) suggested that members of society begin to ask "affluence for what? and for whom, and what beyond affluence?" and business leaders feel the repercussions:

> The leaders of business in the morally more sensitive society of our time are coming to recognize that they must pay the price of a growing commitment to the moral purposes of the larger society. Acting in terms of an authentic moral commitment is not cost-free (Merton, 1976: 86).

The steady flow of studies of the CSP-CFP relationship, even while sustaining a bridge to the economic logic that has come to dominate the study of organizations, may also constitute a response to two symptoms of the quest for meaning that Merton identified: the practical symptom of business leaders' need to justify the cost of "an authentic moral commitment" and the scholarly symptom of researchers' thirst for the deeper purpose that business serves for society. Much as research on the financial impact of CSP may have been a harbinger of broader efforts to identify the financial impact of other organizational practices, so too an underlying quest for purpose and meaning beyond economic profitability—a quest that is now finding its way into organizational scholarship broadly considered (Sandelands, 2003) and in such specific areas as leadership (Podolny, Khurana, & Hill-Popper, 2005)—may have manifested itself first

in research on CSP. Efforts to identify the impact of CSP on CFP are, at least in part, efforts to legitimize CSP and thereby create space for broader purposes in business activity—to establish that business can be about doing good, not just doing well.

Whatever accounts for vigorous interest in the connection between CSP and CFP, the justification of CSP rests on a range of considerations beyond CFP. The contribution any corporate practice makes to economic welfare cannot alone justify that practice. Principles of justice indicate that advancing economic welfare cannot justify the suspension or violation of other rights and duties (Rawls, 1974), which have as strong a moral claim upon corporate conduct as does the pursuit of its financial objectives. Ultimately, the merits of CSP, even merits that transcend the link to financial performance, must be weighed.

The impact that organizations have on our lives, along with the meaningful purposes that people (employees, customers, citizens, and investors) seek to pursue through them, implicates a much larger question confronting organizational scholars. How do we live with organizations that shape the distribution of costs and benefits, advantages and burdens within society? How do we live with organizations that infuse our lives with meaning, or fail to? These kinds of compelling questions might orient (some say must orient) future research on organizations (Walsh, Meyer, & Schoonhoven, 2006). Demands for organizations with which we can live—organizations that do well and do good—call not for the facile dismissal of companies' economic function. Rather, they call for careful inquiry into what companies do and can do to manage these multiple demands. The demands and the challenge of meeting them will not recede with a simple correlation between CSP and CFP, no matter its magnitude.

FIGURE 1
CSP-CFP Studies 1972-2007

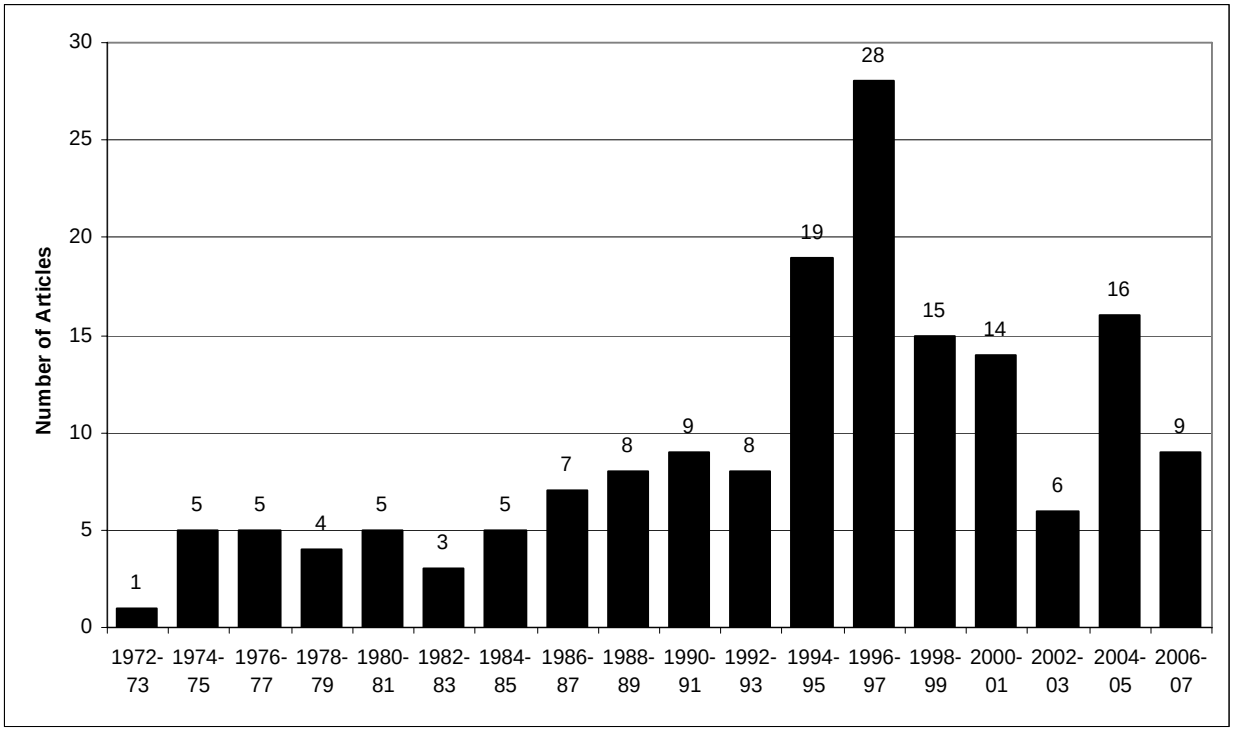

TABLE 1
Prior Reviews of the CSP-CFP Relationship

Authors (Year)	Number of Articles Reviewed	Number of Times Cited by Others*
Aldag and Bartol (1978)	10	14
Arlow and Gannon (1982)	7	57
Cochran and Wood (1984)	14	146
Aupperle, Carroll, and Hatfield (1985)	10	205
Wokutch and McKinney (1991)	20	13
Wood and Jones (1995)	34	150
Pava and Krausz (1996)	21	98
Griffin and Mahon (1997)	51	232
Preston and O'Bannon (1997)	8	66
Richardson, Welker, and Hutchinson (1999)	14	8
Roman, Hayibor, and Agle (1999)	46	82
Margolis and Walsh (2001)	95	96
Margolis and Walsh (2003)	127	134
Orlitzky, Schmidt, and Rynes (2003)	52	155
Allouche and Laroche (2005)	82	0
Wu (2006)	39	2

*Citation counts assessed using Google Scholar on July 26, 2007

TABLE 2
Summary of Results from Meta-Analyses of 167 Studies of the Association Between Corporate Social Performance and Corporate Financial Performance

	Effect Size											
		Timing of CSP Measure			Type of CFP		Significance Test			Heterogeneity Test		
CSP Type	Overall	CFP --> CSP	Concurrent	CSP --> CFP	Accounting	Market	Companies	Z	p-value	chi-square	Df	p-value
Mean Values												
Overall	.132	.148	.115	.140	.180	.104	27,848	16.07	<.001	742.26	166	<.001
N	(192)	(35)	(110)	(66)	(75)	(125)						
Charitable contributions	.239	.332	.198	.292	.281	.147	1,881	6.97	<.001	83.99	12	<.001
N	(13)	(4)	(10)	(2)	(10)	(5)						
Corporate policies	.019	.111	-.031	.011	.040	.015	942	.96	.17	23.22	11	.02
N	(13)	(2)	(5)	(8)	(2)	(9)						
Environmental performance	.112	-.051	.145	.106	.102	.121	8,195	8.15	<.001	140.16	44	<.001
N	(45)	(5)	(20)	(22)	(19)	(32)						
Objective	.095	-.081	.117	.104	.088	.118	7,108	6.38	<.001	126.59	36	<.001
N	(37)	(4)	(15)	(20)	(15)	(28)						
Self-reported	.190	.070	.225	.127	.153	.140	1,087	5.60	<.001	13.58	7	.06
N	(8)	(1)	(5)	(2)	(4)	(4)						
Observer perceptions	.287	.328	.279	.157	.320	.190	2,000	9.44	<.001	161.02	23	<.001
N	(25)	(6)	(19)	(7)	(16)	(15)						
Revealed misdeeds	.223	-.004	.227	.239	.113	.239	1,373	5.02	<.001	51.58	15	<.001
N	(16)	(1)	(1)	(14)	(2)	(14)						
Screened mutual funds	.024	.053	.021	-	-	.014	3,271	-	-	-	-	-
N	(29)	(1)	(27)	(0)	(0)	(26)						
Self-reported performance	.210	.200	.171	.272	.171	.272	967	4.78	<.001	38.94	7	<.001
N	(9)	(3)	(5)	(1)	(6)	(1)						
Third-party audit	.080	.142	.041	.096	.114	.059	7,386	4.12	<.001	41.23	26	<.001
N	(28)	(8)	(14)	(9)	(11)	(17)						
Transparency	.078	.079	.029	.191	.102	.056	1,833	3.12	<.001	39.19	13	<.001
N	(14)	(5)	(9)	(3)	(9)	(6)						
Median												
Overall	.082	.164	.055	.112	.133	.053						
Charitable contributions	.161	.302	.137	.284	.203	.055						
Corporate policies	.005	.111	.005	.002	.040	-.002						
Environmental performance	.094	.133	.159	.060	.130	.075						
Objective	.077	.139	.105	.052	.105	.070						
Self-reported	.181	.070	.233	.127	.152	.130						
Observer perceptions	.229	.316	.153	.265	.258	.135						
Revealed misdeeds	.192	-.004	.227	.192	.111	.192						
Screened mutual funds	.021	.053	.010	-	-	.005						
Self-reported performance	.124	.120	.039	.272	.122	.272						
Third-party audit	.042	.132	.000	.100	.089	.001						
Transparency	.024	-.009	.023	.129	.023	.024						
Weighted Mean												
Overall	.101	.120	.102	.085	.140	.086						
Charitable contributions	.220	.273	.213	.215	.254	.071						
Corporate policies	.038	.080	.006	.026	.041	.049						
Environmental performance	.090	.099	.137	.066	.088	.083						
Objective	.078	.124	.114	.064	.062	.081						
Self-reported	.169	.071	.223	.091	.149	.104						
Observer perceptions	.296	.338	.267	.162	.332	.267						
Revealed misdeeds	.104	-.004	.237	.165	.012	.165						
Screened mutual funds	-	-	-	-	-	-						
Self-reported performance	.128	.119	.075	.285	.141	.285						
Third-party audit	.037	.102	.015	.081	.083	.011						
Transparency	.099	.047	.100	.096	.079	.127						

Note: Weighted means, significance and heterogeneity tests include only those studies reporting the number of companies sampled.

Insufficient numbers of screened mutual fund studies provided data regarding number of companies.

Values in parentheses are the number of effects on which the above coefficient is based. Total effects = 192.

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