Misery Loves Companies: Rethinking Social Initiatives by Business

Joshua D. Margolis
Harvard University

James P. Walsh
University of Michigan

Companies are increasingly asked to provide innovative solutions to deep-seated problems of human misery, even as economic theory instructs managers to focus on maximizing their shareholders’ wealth. In this paper, we assess how organization theory and empirical research have thus far responded to this tension over corporate involvement in wider social life. Organizational scholarship has typically sought to reconcile corporate social initiatives with seemingly inhospitable economic logic. Depicting the hold that economics has had on how the relationship between the firm and society is conceived, we examine the consequences for organizational research and theory by appraising both the 30-year quest for an empirical relationship between a corporation’s social initiatives and its financial performance, as well as the development of stakeholder theory. We propose an alternative approach, embracing the tension between economic and broader social objectives as a starting point for systematic organizational inquiry. Adopting a pragmatic stance, we introduce a series of research questions whose answers will reveal the descriptive and normative dimensions of organizational responses to misery.∗

The world cries out for repair. While some people in the world are well off, many more live in misery. Ironically, the magnitude of the problem defies easy recognition. With the global population exceeding six billion people, it is difficult to paint a vivid and compelling picture of social life. In the extreme, Bales (1999) conservatively estimated that there are 27 million slaves in the world today, while Attaran and Sachs (2001) reported that 35 million people are now infected with the HIV virus, 95 percent of them living in sub-Saharan Africa. Even more broadly, aggregate statistics both inform and numb. Compiled from data released by the World Bank (2002), table 1 represents the kind of snapshot that such statistics provide. It can be shocking to learn that so many people live on less than $2.00 per day, that a quarter of the children in Bangladesh and Nigeria are at work in their nation’s labor force, or that some countries have mortality rates for children under age five more than ten times that of the United States. Access to sanitation, let alone access to a telephone or computer, can be very limited around the world. The picture in the United States alone is as vivid and compelling. For twenty years, Americans have lived through a period of unparalleled prosperity. Ibbotson Associates (2000) calculated that in real terms, a dollar invested in large company stocks in December 1925 was worth $24.79 by year-end 1979. Exactly twenty years later, that dollar was worth $303.09. Nevertheless, the fact that the upper echelon of society disproportionately reaped these gains is no longer news. Even as debate persists about intercountry income inequality (Firebaugh, 1999), Galbraith (1998), and Mishel, Bernstein, and Schmitt (1999) provided a comprehensive picture of wealth inequality in the United States, while Conley (1999) clearly pointed out that many black Americans have been left out of this economic boom. Table 1 provides a comparative portrait of how the top 10 percent of the people in each of the world’s thirteen largest countries control so much
Table 1

A Snapshot of Social Life in the World’s Most Populous Nations, 2000

<table>
<thead>
<tr>
<th>Nation</th>
<th>Population in millions</th>
<th>% Pop. living on &lt; $2/day</th>
<th>% Rural pop. with access to improved sanitation</th>
<th>% Rural pop. with access to improved water source</th>
<th>Illiteracy rate aged 15-24</th>
<th>% Children aged 10-14 in labor force</th>
<th>Under-five mortality per 1000 live births</th>
<th>% Male/ % Female under-five mortality</th>
<th>Population aged 10-14 in labor force</th>
<th>% Rural pop. with access to improved sanitation</th>
<th>% Rural pop. with access to improved water source</th>
<th>Illiteracy rate aged 15-24</th>
<th>% Children aged 10-14 in labor force</th>
<th>Under-five mortality per 1000 live births</th>
<th>% Male/ % Female under-five mortality</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,262.5</td>
<td>52.6</td>
<td>2.4/30.4</td>
<td>8</td>
<td>39/66</td>
<td>38/17/3</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
</tr>
<tr>
<td>India</td>
<td>1,015.9</td>
<td>86.2</td>
<td>3.5/33.5</td>
<td>12</td>
<td>86/86</td>
<td>31/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>281.6</td>
<td>*</td>
<td>1.8/30.5</td>
<td>0</td>
<td>9/100</td>
<td>100/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
</tr>
<tr>
<td>Indonesia</td>
<td>210.4</td>
<td>55.3</td>
<td>4.0/26.7</td>
<td>8</td>
<td>51/65</td>
<td>66/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
</tr>
<tr>
<td>Brazil</td>
<td>170.4</td>
<td>26.5</td>
<td>.7/48.0</td>
<td>14</td>
<td>39/54</td>
<td>77/9/14</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
</tr>
<tr>
<td>Russia</td>
<td>145.6</td>
<td>25.1</td>
<td>1.7/38.7</td>
<td>0</td>
<td>19/96</td>
<td>*</td>
<td>&lt;.5/.5</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Pakistan</td>
<td>138.1</td>
<td>84.7</td>
<td>4.1/27.6</td>
<td>15</td>
<td>110/84</td>
<td>61/29/58</td>
<td>12/2/2</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>131.1</td>
<td>77.8</td>
<td>3.9/28.6</td>
<td>28</td>
<td>83/97</td>
<td>53/29/58</td>
<td>12/2/2</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Japan</td>
<td>126.9</td>
<td>*</td>
<td>4.8/21.7</td>
<td>0</td>
<td>5/96</td>
<td>*</td>
<td>*</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Nigeria</td>
<td>126.9</td>
<td>90.8</td>
<td>1.6/40.8</td>
<td>24</td>
<td>153/39</td>
<td>63/10/16</td>
<td>2/2/2</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Mexico</td>
<td>98.0</td>
<td>37.7</td>
<td>1.3/41.7</td>
<td>5</td>
<td>36/63</td>
<td>73/3/3</td>
<td>12/2/2</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Germany</td>
<td>82.2</td>
<td>*</td>
<td>3.3/23.7</td>
<td>0</td>
<td>6/96</td>
<td>*</td>
<td>*</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
<tr>
<td>Vietnam</td>
<td>78.5</td>
<td>*</td>
<td>3.6/29.9</td>
<td>5</td>
<td>34/50</td>
<td>73/3/3</td>
<td>12/2/2</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
<td>8/39/66</td>
<td>70/20/35</td>
<td>10/14 in labor force</td>
<td>8/51/65</td>
<td>69/130/65</td>
</tr>
</tbody>
</table>

* Data not available.

more of each nation’s wealth than those in the bottom 10 percent. Miringoff and Miringoff (1999) chronicled these same kinds of inequality data but also provided evidence that child abuse, child poverty, teenage suicide, and violent crime, as well as the number of people living without health insurance, have all increased in the United States since the 1970s. These kinds of data serve as a stimulus for outrage and reform (Korten, 1995; Greider, 1997; Wolman and Colam- osca, 1997; Kapstein, 1999; Madeley, 1999).

In the face of these broad and deep problems, calls go out for companies to help. Some organizations exist solely to fight such problems. There are publicly traded companies dedicated to cleaning up waste (e.g., Waste Management, Inc.), private not-for-profit organizations dedicated to treating the sick in very difficult circumstances (e.g., Médecins Sans Frontières), and consortia of development organizations dedicated to fighting poverty, hunger, and social injustice (e.g., Oxfam International). The calls for help, however, target profit-making firms that produce goods and services—goods and services that may have little to do with ameliorating human misery. For example, all three branches of the United States government have recognized the role corporations could play in promoting social welfare. President Bush and Secretary of State Powell have asked companies to contribute to a global AIDS fund (New York Times, 2001), while Former President Clinton used his “bully pulpit” to urge corporations to attend to social problems (New York Times, 1996) and later advocated that minimum labor standards be a part of international trade agreements (New York Times, 1999). With the Economic Recovery Act of 1981, Congress increased (from 5 percent to 10 percent) the allowable corporate tax deduction for charitable contributions (Mills and Gardner, 1984). Even as a majority of states were adopting “other constituency
"statutes," statutes that allow directors to attend to factors other than shareholder wealth maximization when fulfilling their fiduciary duty (Orts, 1992), the Delaware Supreme Court endorsed this same idea in 1989 when it allowed Time Inc.'s management to reject a lucrative tender offer from Paramount Communications to pursue other non-shareholder-related interests (Johnson and Millon, 1990).

Activity beyond the halls of government that focuses on the corporation's role in society is equally intriguing. Non-governmental organizations (NGOs) have worked tirelessly in recent years to establish worldwide standards for corporate social accountability—Ranganathan (1998) listed 47 such initiatives—and investors have pressured firms to be more responsive to social problems (e.g., Carleton, Nelson, and Weisbach, 1998). Major charitable foundations and public interest groups—the Ford Foundation, the Sloan Foundation, and the Aspen Institute, to name three of the most prominent—have launched major initiatives to investigate and even encourage business investment in redressing societal ills. Public intellectuals, including leading business school academics whose prior contributions shaped the fields of corporate strategy and organizational behavior, have joined the call to encourage and guide firms in taking on a larger role in society. Porter (1995) celebrated the competitive advantage of doing business in the inner city, Kanter (1999) identified ways in which public-private partnerships advance corporate innovation, and Prahalad (Prahalad and Hammond, 2002; Prahalad and Hart, 2002) mapped the untapped economic opportunities that reside in what he called the bottom of the world's wealth pyramid.

Business leaders and firms themselves are even responding to calls for enhanced corporate social responsibility. From maven, such as the Body Shop's Anita Roddick, to converts, such as British Petroleum's John Browne, some business leaders are preaching—and at least trying to practice—an approach to business that affirms the broad contribution that companies can make to human welfare, beyond maximizing the wealth of shareholders. On a larger scale, the United States Chamber of Commerce, representing tens of thousands of business interests worldwide, recently founded the Center for Corporate Citizenship, whose purpose is to provide an institutional mechanism to assist humanitarian and philanthropic business initiatives around the world.

The repeated calls for corporate action to ameliorate social ills reflect an underlying tension. On the one hand, misery loves companies. The sheer magnitude of problems, from malnutrition and HIV to illiteracy and homelessness, inspires a turn toward all available sources of aid, most notably corporations. Especially when those problems are juxtaposed to the wealth-creation capabilities of firms—or to the ills that firms may have helped to create—firms become an understandable target of appeals. On the other hand, a sturdy and persistent theoretical argument in economics suggests that such corporate involvement is misguided. It may be neither permissible nor prudent to devote corporate resources to redress social misery (Friedman, 1970; Easterbrook and Fischel, 1991; Sternberg, 1997). Calls for broader corporate
Social Initiatives by Business

responsibility, therefore, constitute an effort to surmount the presupposition that such corporate action is illicit. With social misery and the imperative of corporate involvement, on the one hand, and the skeptical economic rationale, on the other, attempts to mobilize corporate social initiatives reach an intense pitch. Organizational scholarship has confronted the economic argument head-on.

THE POINT OF TENSION

Appeals for corporate involvement in ameliorating malnutrition, infant mortality, illiteracy, pollution, pernicious wealth inequality, and other social ills quickly call to mind a long and contentious debate about the theory and purposes of the firm. Despite a long history of communitarian protest (Morrissey, 1989), Bradley et al.'s (1999) review of these efforts found that the neoclassical construal of the firm as a nexus of contracts has prevailed. Although organizational and legal scholars (Bratton, 1989a, 1989b; Davis and Useem, 2000; Paine, 2002) have questioned the contractarian model and sketched alternative views, they have also acknowledged the purchase this economic model of the firm has had on corporate conduct, law, and scholarship. The purpose of the firm, from a contractarian perspective, is perhaps best captured by the landmark 1919 Dodge v. Ford Michigan State Supreme Court decision that determined whether or not Henry Ford could withhold dividends from the Dodge brothers (and other shareholders). The court famously argued, “A business organization is organized and carried on primarily for the profit of the stockholders” (Dodge Brothers v. Ford Motor Company, 1919: 170 N.W. 668). The assumption that the primary, if not sole, purpose of the firm is to maximize wealth for shareholders has come to dominate the curricula of business schools and the thinking of future managers, as evidence from a recent survey of business school graduates reveals (Aspen Institute, 2002). Investigating corporate social initiatives presents a rich scholarly opportunity in part because the economic account suggests that there should be no such initiatives to investigate in the first place.

The contractarian view of the firm or, to be more accurate, the economic version of contractarianism (cf. Keeley, 1988; Donaldson and Dunfee, 1999), challenges the legitimacy and value of corporate responses to social misery. The specific challenges come in three distinct forms: saying that firms already advance social welfare to the full extent possible, saying that the only legitimate actors to address societal problems are freely elected governments, or saying that if firms do get involved, managers must warn their constituencies so they can protect themselves from corporate misadventures. The first point of view defends the economic contractarian model by invoking the same aim that stimulates efforts to enlist companies to cure social ills. For example, Jensen (2002: 239) argued, “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.” Jensen conceded that companies must attend to multiple constituencies in order to succeed but, ultimately, firms must be guided by a single objective function: wealth creation. He argued that it is logically incoherent and psycho-
logically impossible to maximize performance along more than one dimension—calculating tradeoffs and selecting courses of action become intractable. Although any single objective could satisfy the logical and psychological requirements, Jensen concluded that long-term market value is the one objective that best advances social welfare. Those subscribing to this view believe that if shareholder wealth is maximized, social welfare is maximized as well. In the end, the challenge for firms to invest in social initiatives is no challenge at all.

Friedman’s (1970) well-known criticism of corporate social responsibility embodies the second form of criticism. He construed these investments as theft and political subversion: in responding to calls for socially responsible practices, executives take money and resources that would otherwise go to owners, employees, and customers—and dedicate those resources to objectives that the executives, under the sway of a minority of voices, have selected in a manner that is beyond the reach of accepted democratic political processes. Friedman did not deny the existence of social problems; he simply claimed that it is the state’s role to address them.

The third form of the economic argument against corporate social initiatives deems them dubious but, provided they are disclosed, unobjectionable. As long as the contracting parties are clear about the firm’s intentions, even if those intentions include something other than wealth creation, Easterbrook and Fischel (1991: 36) argued, “no one should be allowed to object.” They went on to conclude that “one thing that cannot survive is systematic efforts to fool participants” (Easterbrook and Fischel, 1991: 37). They were wary of corporate social investments and, like Jensen, trusted property rights and the invisible hand of the market to solve most social problems. If all contracting parties know that the firm plans to make a social investment, no matter how ill conceived, however, then those parties can decide if they want to participate in the venture. The market will ultimately sort out whether it is the best use of a firm’s resources.

The point of tension between a nexus of contracts approach to the firm and those who push for corporate social involvement can thus be distilled to two central concerns: misappropriation and misallocation. When companies engage in social initiatives, the first concern is that managers will misappropriate corporate resources by diverting them from their rightful claimants, whether these be the firm’s owners or, sometimes, employees. Managers also misallocate resources by diverting those best used for one purpose to advance purposes for which those resources are poorly suited. From this perspective, managers’ social initiatives are akin to using a dishwasher to wash clothes. While economic contractarians may be as committed to ameliorating human misery as anyone, they see no reason for a corporation to divert its resources to solve society’s problems directly. Corporations can contribute best to society if they do what they do best: employ a workforce to provide goods and services to the marketplace and, in so doing, fulfill people’s needs and create wealth.
The challenge facing those who advocate corporate social initiatives then is to find a way to promote what they see as social justice in a world in which this shareholder wealth maximization paradigm reigns. Although a daunting task, it has attracted many management scholars over the years. Their scholarship has attempted to sort out the relationship between shareholders, with their economic interests, and society, with its interest in broader well-being and human development. The aim has largely been to demonstrate that corporate attention to human misery is perfectly consistent with maximizing wealth, that there is, in the words of United Nations’ Secretary General Kofi Annan (2001), “a happy convergence between what your shareholders want and what is best for millions of people the world over.”

ORGANIZATIONAL SCHOLARSHIP ON BUSINESS IN SOCIETY

Aware of human suffering and alert to the challenge from economic contractarianism, organization theorists and empirical researchers have sought to identify a role for the firm that both attends to shareholders’ interest in wealth creation and looks beyond it. In this light, empirical research has largely focused on establishing a positive connection between corporate social performance (CSP) and corporate financial performance (CFP). First appearing in 1972, these studies were offered as something of an antidote to a public conversation that was quite skeptical of corporate social responsibility (Levitt, 1958; Friedman, 1970). The now 30-year search for an association between CSP and CFP reflects the enduring quest to find a persuasive business case for social initiatives, to substantiate the kind of claims that Kofi Annan (2001) recently made to U.S. corporations: “by joining the global fight against HIV/AIDS, your business will see benefits on its bottom line.” A dozen years after the publication of the first CSP-CFP studies, stakeholder theory (Freeman, 1984) began to take shape as the dominant theoretical response to the economists’ challenge. It aims to establish the legitimate place for parties other than shareholders whose interests and concerns can defensively orient managers’ actions. With a body of empirical work and a rival theoretical model of the firm, organization studies has tried to respond to the economists’ fundamental challenge by establishing some grounds to license direct corporate involvement in ameliorating social misery. The problem is that the resulting empirical findings and theoretical propositions restrict organizational scholars’ ability to develop a more expansive approach to understanding the relationship between organizations and society. We briefly appraise the 30-year CSP-CFP empirical research tradition and the standing of stakeholder theory and use this summary and critique as a springboard to develop an alternative scholarly agenda.

The Empirical CSP-CFP Literature

Between 1972 and 2002, 127 published studies empirically examined the relationship between companies’ socially responsible conduct and their financial performance. Bragdon and Marlin (1972) and Moskowitz (1972) published the first studies, with 17 other studies following during the 1970s, 30
in the 1980s, and 68 in the 1990s. In the most recent 10-year period from 1993 through 2002, researchers have published 64 new studies. Notwithstanding a long empirical history, interest in this question seems to be gaining momentum.

Corporate social performance has been treated as an independent variable, predicting financial performance, in 109 of the 127 studies. In these studies, almost half of the results (54) pointed to a positive relationship between corporate social performance and financial performance. Only seven studies found a negative relationship; 28 studies reported non-significant relationships, while 20 reported a mixed set of findings. Corporate social performance has been treated as a dependent variable, predicted by financial performance, in 22 of the 127 studies. In these studies, the majority of results (16 studies) pointed to a positive relationship between corporate financial performance and social performance. Four studies investigated the relationship in both directions, which explains why there are more results than studies. Table 2

Table 2

<table>
<thead>
<tr>
<th>Study</th>
<th>Social performance</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive relationship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belkaoui (1976)</td>
<td>Disclosure of pollution control</td>
<td>Market</td>
</tr>
<tr>
<td>Blacconiere &amp; Northcut (1997)</td>
<td>Disclosure of and expenditures on environmental practices</td>
<td>Market</td>
</tr>
<tr>
<td>Blacconiere &amp; Patten (1994)</td>
<td>Disclosure of and expenditures on environmental practices</td>
<td>Market</td>
</tr>
<tr>
<td>Bowman (1976)</td>
<td>Stewardship, systems thinking, transparency, employee growth, financial strength</td>
<td>Accounting</td>
</tr>
<tr>
<td>Bragdon &amp; Karash (2002)</td>
<td>CEP evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Bragdon &amp; Marlin (1972)</td>
<td>Fortune reputation rating</td>
<td>Cost advantage</td>
</tr>
<tr>
<td>Christmann (2000)</td>
<td>Ratings of charity, community relations, customer relations, environmental practices, human resource practices, and org. structures based on case studies</td>
<td>Perception of value as long-term investment and of soundness of financial position</td>
</tr>
<tr>
<td>Clarkson (1988)</td>
<td>Fortune reputation rating</td>
<td></td>
</tr>
<tr>
<td>Conine &amp; Madden (1986)</td>
<td>Mutual fund screens</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Study</th>
<th>Social performance</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>D’Antonio, Johnsen &amp; Hutton (1997)</td>
<td>IRRC evaluation of environmental performance</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Freedman &amp; Stagliano (1991)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Graves &amp; Waddock (2000)</td>
<td>Fortune reputation rating, KLD evaluation, charitable contributions, pollution control</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Griffin &amp; Mahon (1997)</td>
<td>IRRC evaluation of environmental performance</td>
<td>Market</td>
</tr>
<tr>
<td>Hart &amp; Ahuja (1996)</td>
<td>NACBS ratings</td>
<td>Market</td>
</tr>
<tr>
<td>Heinze (1976)</td>
<td>Fortune reputation rating</td>
<td>Market</td>
</tr>
<tr>
<td>Ingram (1978)</td>
<td>Working Mother list of “Most Family Friendly” companies</td>
<td>Market</td>
</tr>
<tr>
<td>Judge &amp; Douglas (1998)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

274/ASQ, June 2003
### Table 2 (Continued)

<table>
<thead>
<tr>
<th>Study</th>
<th>Corporate social performance as independent variable</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Klassen &amp; McLaughlin (1996)</td>
<td>Environmental awards and crises</td>
<td>Market</td>
</tr>
<tr>
<td>Klassen &amp; Whybark (1999)</td>
<td>Survey of environmental practices and TRI</td>
<td>Manufacturing cost, quality, speed, and flexibility</td>
</tr>
<tr>
<td>Konar &amp; Cohen (2001)</td>
<td>TRI and environmental lawsuits</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Luck &amp; Pilotte (1953)</td>
<td>KLD evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>McGuire, Sundgren &amp; Schneeweis (1988)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Moskowitz (1972)</td>
<td>Observations of charitable contributions, consumer protection, disclosure, equal employment opportunity, human resource practices, South Africa operations, and urban renewal</td>
<td>Personal assessment</td>
</tr>
<tr>
<td>Newgren et al. (1985)</td>
<td>Survey of environmental practices</td>
<td>Market</td>
</tr>
<tr>
<td>Parket &amp; Elbirt (1975)</td>
<td>Survey on minority hiring and training, ecology, contributions to education and art</td>
<td>Accounting</td>
</tr>
<tr>
<td>Posnikoff (1997)</td>
<td>South Africa: divestment</td>
<td>Market</td>
</tr>
<tr>
<td>Preston (1978)</td>
<td>Disclosure of social performance</td>
<td>Accounting</td>
</tr>
<tr>
<td>Preston &amp; O'Bannon (1997)</td>
<td>Fortune reputation rating</td>
<td>Accounting</td>
</tr>
<tr>
<td>Preston &amp; Sapienza (1990)</td>
<td>Fortune reputation rating</td>
<td>Market</td>
</tr>
<tr>
<td>Reimann (1975)</td>
<td>Survey of attitudes toward national government, suppliers, consumers, community, stockholders, creditors, and employees</td>
<td>Organizational competence</td>
</tr>
<tr>
<td>Russo &amp; Fouts (1997)</td>
<td>FRDC ratings of environmental practices</td>
<td>Accounting</td>
</tr>
<tr>
<td>Shane &amp; Spicer (1983)</td>
<td>CEP evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Sharma &amp; Vredenburg (1998)</td>
<td>Survey of environmental strategy</td>
<td>Operational improvement</td>
</tr>
<tr>
<td>Simerly (1994)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Simerly (1995)</td>
<td>Fortune reputation rating</td>
<td>Accounting</td>
</tr>
<tr>
<td>Spencer &amp; Taylor (1987)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Spicer (1978)</td>
<td>CEP evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Stevens (1984)</td>
<td>CEP evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Sturdivant &amp; Ginter (1977)</td>
<td>Moskowitz ratings of social responsiveness</td>
<td>Accounting</td>
</tr>
<tr>
<td>Tichy, McGill &amp; St. Clair (1997)</td>
<td>Fortune reputation rating</td>
<td>Accounting</td>
</tr>
<tr>
<td>Travers (1997)</td>
<td>Mutual fund screens</td>
<td>Market</td>
</tr>
<tr>
<td>Verschoor (1998)</td>
<td>Espoused commitment to ethics in annual report</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Waddock &amp; Graves (1997)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Wokutch &amp; Spencer (1987)</td>
<td>Fortune reputation rating, charitable contributions, corporate crime</td>
<td>Market</td>
</tr>
<tr>
<td>Wright et al. (1995)</td>
<td>Awards from U.S. Dept. of Labor for exemplary equal employment opportunity</td>
<td>Market</td>
</tr>
</tbody>
</table>

**Non-significant relationship**
- Abbott & Monsen (1979)
- Alexander & Buchholz (1978)
- Aupperle, Carroll & Hatfield (1985)
- Bowman (1978)
- Chen & Metcalf (1980)
- Fogler & Nutt (1975)
- Fombrun & Shanley (1990)
- Freedman & Jaggi (1982)
- Freedman & Jaggi (1986)
- Fry & Hock (1976)
- Greening (1995)
- Guerard (1997a)
- Hamilton, Jo & Statman (1993)
- Hickman, Teets & Kohls (1999)
- Hylton (1992)
- Ingram & Frazier (1983)
- Disclosure of social performance
- Moskowitz ratings of social responsiveness
- Survey of social responsibility practices and organizational structures
- Disclosure of social performance
- CEP evaluation
- CEP evaluation
- Fortune reputation rating
- CEP evaluation
- Disclosure of pollution
- Disclosure of social performance
- EIA reports on conservation practices
- KLD evaluation
- Mutual fund screens
- Mutual fund screens
- Mutual fund screens
- Disclosure of environmental quality control
- Accounting
- Market
- Accounting
- Accounting & market
- Market
- Accounting & market
- Market
- Accounting & market
- Market
- Market
- Market
- Accounting
<table>
<thead>
<tr>
<th>Study</th>
<th>Social performance</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate social performance as independent variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kurtz &amp; DiBartolomeo (1996)</td>
<td>KLD evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Kashgari &amp; Gent (1989)</td>
<td>South Africa: adherence to Sullivan principles</td>
<td>Market</td>
</tr>
<tr>
<td>Luther &amp; Matatko (1994)</td>
<td>Mutual fund screens</td>
<td>Market</td>
</tr>
<tr>
<td>McWilliams &amp; Siegel (1997)</td>
<td>Awards from U.S. Dept. of Labor for exemplary equal employment opportunity</td>
<td>Market</td>
</tr>
<tr>
<td>McWilliams &amp; Siegel (2000)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Patten (1990)</td>
<td>South Africa: announcement of signing of Sullivan principles</td>
<td>Market</td>
</tr>
<tr>
<td>Reyes &amp; Grieb (1998)</td>
<td>Mutual fund screens</td>
<td>Market</td>
</tr>
<tr>
<td>Sauer (1997)</td>
<td>Mutual fund screens</td>
<td>Market</td>
</tr>
<tr>
<td>Waddock &amp; Graves (2000)</td>
<td>KLD evaluation</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td><strong>Negative relationship</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kahn, Lekander &amp; Leimkuhler (1997)</td>
<td>Tobacco-free</td>
<td>Market</td>
</tr>
<tr>
<td>Mezmar, Nigh &amp; Kwok (1994)</td>
<td>South Africa: withdrawal</td>
<td>Market</td>
</tr>
<tr>
<td>Teper (1992)</td>
<td>No alcohol, tobacco, gambling, defense contracts, or operations in South Africa; adherence to broad social guidelines</td>
<td>Market</td>
</tr>
<tr>
<td>Vance (1975)</td>
<td>Moskowitz ratings of social responsiveness</td>
<td>Market</td>
</tr>
<tr>
<td>Wright &amp; Ferris (1997)</td>
<td>South Africa: divestment</td>
<td>Market</td>
</tr>
<tr>
<td><strong>Mixed relationship</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Berman et al. (1999)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Blackburn, Doran &amp; Shrader (1994)</td>
<td>CEP evaluation</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Bowman &amp; Haire (1975)</td>
<td>Disclosure of social performance</td>
<td>Accounting</td>
</tr>
<tr>
<td>Brown (1997)</td>
<td>Fortune reputation rating</td>
<td>Market</td>
</tr>
<tr>
<td>Diltz (1995)</td>
<td>CEP evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Graves &amp; Waddock (1994)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Gregory, Matatko &amp; Luther (1997)</td>
<td>Mutual fund screens</td>
<td>Market</td>
</tr>
<tr>
<td>Guerard (1997b)</td>
<td>KLD evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Hillman &amp; Keim (2001)</td>
<td>KLD evaluation</td>
<td>Market</td>
</tr>
<tr>
<td>Kedia &amp; Kuntz (1981)</td>
<td>Interview and survey on charitable contributions, low-income housing loans, minority enterprise loans, female corporate officers, and minority employment</td>
<td>Accounting &amp; market share</td>
</tr>
<tr>
<td>Luther, Matatko &amp; Corner (1992)</td>
<td>Mutual fund screens</td>
<td>Market</td>
</tr>
<tr>
<td>Marcus &amp; Goodman (1986)</td>
<td>Compliance with safety regulations</td>
<td>Capabilities &amp; productive efficiency</td>
</tr>
<tr>
<td>McGuire, Schneeweis &amp; Branch (1990)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Ogden &amp; Watson (1999)</td>
<td>Customer service complaints</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Pava &amp; Krausz (1996)</td>
<td>CEP evaluation</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Rockness, Schlahter &amp; Rockness (1986)</td>
<td>EPA and U.S. House of Representatives data on hazardous waste disposal</td>
<td>Accounting &amp; market</td>
</tr>
</tbody>
</table>
Table 2 (Continued)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Social performance</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate social performance as dependent variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Positive relationship</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brown &amp; Perry (1994)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Cottrill (1990)</td>
<td>Fortune reputation rating</td>
<td>Market share</td>
</tr>
<tr>
<td>Dooley &amp; Lerner (1994)</td>
<td>TR1</td>
<td>Accounting</td>
</tr>
<tr>
<td>Fry, Keim &amp; Meiners (1982)</td>
<td>Charitable contributions</td>
<td>Accounting</td>
</tr>
<tr>
<td>Galaskiewicz (1997)</td>
<td>Charitable contributions</td>
<td>Accounting</td>
</tr>
<tr>
<td>Konar &amp; Cohen (1997)</td>
<td>TR1</td>
<td>Market</td>
</tr>
<tr>
<td>Levy &amp; Shatto (1980)</td>
<td>Charitable contributions</td>
<td>Accounting</td>
</tr>
<tr>
<td>Maddox &amp; Siegfried (1980)</td>
<td>Charitable contributions</td>
<td>Accounting</td>
</tr>
<tr>
<td>Marcus &amp; Goodman (1986)</td>
<td>Compliance with emissions regulations</td>
<td>Accounting</td>
</tr>
<tr>
<td>McGuire, Sundgren &amp; Schneeweis (1988)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Navarro (1988)</td>
<td>Charitable contributions</td>
<td>Accounting</td>
</tr>
<tr>
<td>Preston &amp; O’Bannon (1997)</td>
<td>Fortune reputation rating</td>
<td>Accounting</td>
</tr>
<tr>
<td>Riahi-Belkaoui (1991)</td>
<td>Fortune reputation rating</td>
<td>Accounting</td>
</tr>
<tr>
<td>Roberts (1992)</td>
<td>CEP evaluation</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>Waddock &amp; Graves (1997)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td><strong>Non-significant relationship</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buehler &amp; Shetty (1976)</td>
<td>Organizational programs in consumer affairs, environmental affairs, urban affairs</td>
<td>Accounting</td>
</tr>
<tr>
<td>Patten (1991)</td>
<td>Disclosure of social performance</td>
<td>Accounting</td>
</tr>
<tr>
<td><strong>Mixed relationship</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johnson &amp; Greening (1999)</td>
<td>KLD evaluation</td>
<td>Accounting</td>
</tr>
<tr>
<td>Lerner &amp; Fryxell (1988)</td>
<td>CEP evaluation</td>
<td>Accounting &amp; market</td>
</tr>
<tr>
<td>McGuire, Schneeweis &amp; Branch (1990)</td>
<td>Fortune reputation rating</td>
<td>Accounting &amp; market</td>
</tr>
</tbody>
</table>

* CEP = Council on Economic Priorities; EIA = Energy Information Association; EPA = Environmental Protection Agency; FRDC = Franklin Research & Development Corporation; IRRC = Investor Responsibility Research Center; KLD = Kinder, Lydenberg, Domini multidimensional rating; NACBS = National Affiliation of Concerned Business Students; OSHA = Occupational Safety and Health Administration; and TRI = Toxics Release Inventory. Four studies investigate the relationship in both directions but are counted as only one study: McGuire, Schneeweis & Branch (1990); McGuire, Sundgren & Schneeweis (1988); Preston & O’Bannon (1997); Waddock & Graves (1997). Marcus & Goodman (1986) contains two separate studies and is therefore counted twice.

captures the basic approaches for measuring social and financial performance and reports which authors found which results, including positive, non-significant, negative, and mixed relationships.

A clear signal emerges from these 127 studies. A simple compilation of the findings suggests there is a positive association, and certainly very little evidence of a negative association, between a company’s social performance and its financial performance. A recent meta-analysis of 52 CSP-CFP studies reached this same substantive conclusion (Orlitzky, Schmidt, and Rynes, 2003). Concerns about misappropriation, and perhaps even misallocation, would seem to be alleviated. If corporate social performance contributes to corporate financial performance, then a firm’s resources are being used to advance the interests of shareholders, the rightful claimants in the economic contractarian model. Concerns about misallocation recede as well. If social performance is
contributing to financial performance, then the firm is being used to advance the objective for which it is considered to be best suited, maximizing wealth. Although it can be argued that a company's resources might be used to produce even more wealth, were they devoted to some activity other than CSP, studies of the link between CSP and CFP reveal little evidence that CSP destroys value, injures shareholders in a significant way, or damages the wealth-creating capacity of firms. The empirical relationship between CSP and CFP would seem to be established and the underlying economic concerns about CSP alleviated. Even as research into the relationship between CSP and CFP addresses the objections posed by economic contractarianism, however, a closer look at this research suggests that it opens as many questions as it answers about the role of the firm in society.

What appears to be a definite link between CSP and CFP may turn out to be more illusory than the body of results suggests. The steady flow of research studies reflects ongoing efforts both to resolve the tension between advocates and critics of corporate social performance and to shore up the methodological and theoretical weaknesses in past studies. There have been 13 reviews of this CSP-CFP research published since 1978, nine in the past ten years alone (Aldag and Bartol, 1978; Arlow and Gannon, 1982; Cochran and Wood, 1984; Aupperle, Carroll, and Hatfield, 1985; Wokutch and McKinney, 1991; Wood and Jones, 1995; Pava and Krausz, 1996; Griffin and Mahon, 1997; Preston and O'Bannon, 1997; Richardson, Welker, and Hutchinson, 1999; Roman, Hayibor, and Agle, 1999; Margolis and Walsh, 2001; Orlitzky, Schmidt, and Rynes, 2003). The reviewers see problems of all kinds in this research. They identify sampling problems, concerns about the reliability and validity of the CSP and CFP measures, omission of controls, opportunities to test mediating mechanisms and moderating conditions, and a need for a causal theory to link CSP and CFP. The imperfect nature of these studies makes research on the link between CSP and CFP self-perpetuating: each successive study promises a definitive conclusion, while also revealing the inevitable inadequacies of empirically tackling the question. As the acceleration in the number of studies reveals, research that investigates the link between CSP and CFP shows no sign of abating.

This continuing research tradition produces an ironic and, no doubt, unintended consequence. The CSP-CFP empirical literature reinforces, rather than relieves, the tension surrounding corporate responses to social misery. By assaying the financial impact of corporate social performance, organizational research helps to confirm the economic contractarian model and accept its assumptions. Meanwhile, the work leaves unexplored questions about what it is firms are actually doing in response to social misery and what effects corporate actions have, not only on the bottom line but also on society. The parallel conceptual work in the area of stakeholder theory arrives at the same disquieting destination.

The Theoretical Stakeholder Literature

Freeman (1984) brought a formal consideration of stakeholder relations to a burgeoning field of management scholarship.
twenty years ago. Tracing its indirect roots back to Adam Smith's work in the eighteenth century and a 1963 internal memorandum at the Stanford Research Institute, Freeman's ideas provided a language and framework for examining how a firm relates to "any group or individual who can affect or is affected by the achievement of the organization's objective" (Freeman, 1984: 46). Looking at the business corporation through something other than the eyes of its equity holders has inspired great efforts to translate that intuitive appeal into a theory. Donaldson and Preston (1995) counted more than a dozen books and 100 articles devoted to stakeholder theory; Wolfe and Putler (2002) counted 76 articles on the stakeholder theme published in just six journals in the 1990s. The promise of stakeholder theory to offer a cogent alternative to the economic account of the firm, however, is impeded by a set of assumptions designed to accommodate economic considerations.

Taking stock of stakeholder theory, Donaldson and Preston (1995) introduced an influential taxonomy that sorts it into three types: descriptive, normative, and instrumental. Descriptive stakeholder theory focuses on whether and to what extent managers do in fact attend to various stakeholders and act in accord with their interests. Normative stakeholder theory explores whether managers ought to attend to stakeholders other than shareholders and, if so, on what grounds these various stakeholders have justifiable claims on the firm. Instrumental stakeholder theory delineates and investigates the consequences—most notably, the economic benefits—that follow from attending to a range of stakeholders. Instrumental versions of stakeholder theory can either be descriptive, positing and investigating the beneficial consequences that accrue to the firm, such as efficient contracting (Jones, 1995), or normative, justifying the claims of stakeholders on the basis of the benefits that accrue to the firm from attending to those claims (Freeman, 1999; Freeman and Phillips, 2002; Jensen, 2002).

Whereas Donaldson and Preston encouraged greater attention to normative questions about stakeholders, the scholarship devoted to stakeholder theory has focused largely on instrumental considerations. Jones and Wicks (1999) formally proposed a convergent stakeholder theory to blend instrumental considerations with the ongoing efforts to create a normative theory. Although Freeman (1999: 235) eschewed Donaldson and Preston's tripartite division of stakeholder theory as well as the subsequent integration, he also concluded that to buttress any normative injunction for managers to attend to key stakeholders, "it is hard to see how such an argument can be connected to real firms and real stakeholders without some kind of instrumental claim." Revealing the grip that instrumental reasoning has on stakeholder theory, Post, Preston, and Sachs (2002: 19) recently defined stakeholders explicitly by the contribution stakeholders make to wealth creation or destruction: "The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and are therefore its potential beneficiaries and/or risk bearers."

It is taken to be a practical necessity that stakeholder theory revolve around consequences, financial consequences
substantive enough to convince managers that stakeholders are worthy of attention (Freeman, 1999; Jones and Wicks, 1999). When those beneficial consequences are not contingent on a certain standard of stakeholder treatment, or when that treatment fails to produce those consequences, however, the range of corporate conduct that is required, or even permissible, becomes much less clear. What happens when attention to stakeholder interests yields results that diverge from the wealth maximizing ambitions of its shareholders? This is precisely what may happen when attention is directed at the effects of organizations on society and whether, for example, companies should divest their investments in South Africa (Meznar, Nigh, and Kwock, 1994), diversify the demographic composition of their boards of directors (Carleton, Nelson, and Weisbach, 1998), or join the fight to combat AIDS. Paradoxically, a stakeholder theory conceived to be practical may have left managers bereft. As Gioia (1999: 231) argued, the central challenge for managers is “how to arrive at some workable balance” between instrumental and other moral criteria. Managers confront difficult dilemmas when normative and instrumental claims do not perfectly align.

There are normative reasons to respect stakeholders, independent of the ensuing financial benefits. Those reasons may be grounded, for example, in the beneficial consequences that result for specific stakeholders. Concerns about employee dignity and self-efficacy may prompt certain kinds of managerial behavior (Shklar, 1991; Hodson, 2001). Normative justification of stakeholder claims may also be grounded in principles of fairness and reciprocity (Applbaum, 1996; Phillips, 1997, 2003), fundamental rights (Donaldson and Preston, 1995), or respect for the intrinsic worth of human beings (Donaldson and Dunfee, 1999). How do these grounds for action inform our perspective on the place of the firm in society? How can their implications for action, in the face of calls for corporate responses to ameliorate social misery, be sorted out alongside the compelling instrumental purpose of the firm to enhance material welfare and maximize wealth?

A preoccupation with instrumental consequences renders a theory that accommodates economic premises yet sidesteps the underlying tensions between the social and economic imperatives that confront organizations. Such a theory risks omitting the pressing descriptive and normative questions raised by these tensions, which, when explored, might hold great promise for new theory, and even for addressing practical management challenges. How do firms navigate their way through these tensions? How ought they to do so? Organizational inquiry must go beyond efforts to reconcile corporate responses to social misery with the neoclassical model of the firm. Rather, this social and economic tension should serve as a starting point for new theory and research.

Exploring the Antinomy

Organizational scholars and managers alike find themselves in the clutches of an antinomy (Alexander, 1988; Poole and Van de Ven, 1989). That antinomy is captured in a question Merton (1976: 88) believed every executive must face:
“Does the successful business try first to profit or to serve?”
From society’s perspective, creating wealth and contributing to material well-being are essential corporate goals. But restoring and equipping human beings, as well as protecting and repairing the natural environment, are also essential objectives. Companies may be well designed to advance the first set of objectives, yet they operate in a world plagued by a host of recalcitrant problems that hamper the second set. These vying objectives place claims on the firm that are often difficult to rank and reconcile. Where economic contractarians see instrumental inefficiency and illicit conduct in directing corporate resources toward redressing social misery, those who advocate broader corporate social initiatives see instrumental efficiency and duties fulfilled.

The antinomy reveals itself more explicitly in the face of appeals for companies to take a more active and expanded role in society. Some line up to warn of the danger in heeding these appeals, while others point to empirical findings to relieve concern. Both avenues of intellectual response, already reviewed in this paper, attempt to remove the antinomy in one of two classic ways (Nussbaum, 1986: 67), either through invalidation or through reconciliation. For example, declarations of what the role and purpose of a firm “really” is attempt either to validate or disqualify certain activities by suggesting that a theory of the firm renders certain functions and practices defensible and others not (e.g., Berle, 1931; Dodd, 1932). Theoretical and empirical attempts at synthesis, reflecting the second avenue of response, seek to demonstrate the mutual reinforcement of colliding conceptions of the firm (e.g., Griffin and Mahon, 1997; Jones and Wicks, 1999). Despite these differing efforts to resolve the antinomy, declarations of what a firm’s purpose truly is and efforts to demonstrate convergence among competing conceptions do not erase the fundamental tension.

The effort to relieve the antinomy through synthesis and reconciliation has fueled organizational scholarship for many years. By adopting the underlying assumptions of economic contractarianism, both instrumental stakeholder theory and the empirical research connecting CSP and CFP offer an alluring way to ease the tension with economics. The problem, as Tetlock (2000: 23) pointed out, is that no concession to the instrumental and wealth-enhancing model of the firm will reconcile economic contractarians to stakeholder theory:

Disagreements rooted in values should be profoundly resistant to change. ... Libertarian conservatives might oppose the (confiscatory) stakeholder model even when confronted by evidence that concessions in this direction have no adverse effects on profitability to shareholders. Expropriation is expropriation, no matter how prettified. And some egalitarians might well endorse the stakeholder model, even if shown compelling evidence that it reduces profits. Academics who rely on evidence-based appeals to change minds when the disagreements are rooted in values may be wasting everyone’s time.

Aside from failing to win over opponents, substantiating the instrumental benefits of corporate social performance may well be immaterial for another, equally salient reason. Companies already invest in social initiatives. Moreover, these com-
panies often invest for reasons that have nothing to do with instrumental consequences. Beyond the obvious point that researchers could not investigate the CSP-CFP relationship without evidence of CSP, companies' philanthropic contributions more than quadrupled, in real terms, between 1950 and 2000 (Caplow, Hicks, and Wattenberg, 2001). The cross-industry organization Business for Social Responsibility would not be able to count 1,400 members and commission a book to document the benefits that purportedly accrue from socially responsible practices (Makower, 1994) were such practices unknown. In keeping with Tetlock's (2000) insight, the reasons executives give for these social initiatives typically have more to do with an ineffable sense that this work is the right thing to do (Holmes, 1976; Galaskiewicz, 1997; Donnelly, 2001), rather than with how these investments will increase shareholder value. These corporate practices even seem to challenge the empirical claims of economic theory. Why does corporate social performance persist despite the disadvantages that economic theory suggests it imposes on firms? The existence of CSP begs empirical explanation rather than empirical justification.

Efforts to reconcile organizational research on corporate social performance with the economic model of the firm may ultimately turn out to be counterproductive. To make room for corporate responses to societal ills, organizational theorists and researchers have acceded to economic contractarianism, relinquishing their own ideas about the problems to be investigated, the variables on which to focus, and the methods to use for gaining insight (Alexander, 1988; Hirsch, Friedman, and Koza, 1990). For example, if corporate responses to social misery are evaluated only in terms of their instrumental benefits for the firm and its shareholders, we never learn about their impact on society, most notably on the intended beneficiaries of these initiatives. Nor do we investigate the conditions under which it is permissible to act on stakeholder interests that are inconsistent with shareholder interests. The corporate initiatives that were the focus of Meznar, Nigh, and Kwok's (1994) event study of firms announcing their divestment from South Africa and the event study of TIAA-CREF's board diversity initiatives (Carleton, Nelson, and Weisbach, 1998) were both met with negative market reactions. Does that mean that firms should have stayed to work with an apartheid government or that attempts to add African Americans to boards of directors should be halted? Financial performance may not be the final arbiter of questions that implicate a range of values and concerns, even when firms are the actors. Rather than theorizing away the collision of objectives and interests, organizational scholars would do well to explore it (Alexander, 1988).

By adopting economic assumptions, organization theory and research handicaps itself in yet another way. It leaves organizations that seek to respond to these calls for social involvement bereft of prescriptive guidance for how to do so. Simply knowing that the economic tide is with them does not provide managers with insight about how to respond properly and effectively. Organizations face a troublesome reality, in which specific requests to help fight AIDS, support homeless
shelters, or improve local schools may or may not generate economic gains for the firm. The field of organization studies has largely been silent about how to consider and manage the tradeoffs and dilemmas that arise when companies confront dueling expectations.

A Reorienting Perspective

The grip of economic assumptions must be released in favor of an alternative premise, one that expands the focus of organizational scholarship. We suggest adopting a pragmatic stance toward questions about the firm’s role in society, one articulated most clearly by William James (1975: 97): “Grant an idea or belief to be true,” it [pragmatism] says, “what concrete difference will its being true make in anyone’s actual life? How will the truth be realized? What experiences will be different from those that would obtain if the belief were false? What, in short, is the truth’s cash-value in experiential terms?”

The first step of James’s pragmatic approach is to assume that an idea is true. In this case, we need to begin with the idea that organizations can play an effective role in ameliorating social misery. From that beginning, pragmatism then instructs us to look at the consequences of acting on this belief. Do companies really make a concrete difference in curing social ills when they act as though they can do so? The lens of research shifts away from confirming the consistency between corporate actions and economic premises about the firm. Research would instead focus on unearthing the effects that corporate actions to redress social ills actually have. The pragmatic perspective poses a second question: How can the assumed truth that companies can be effective agents, not just of economic efficiency but of social repair, be realized? How can the concrete differences be achieved? This lays out a new direction for theory. What are the conditions under which, and the processes through which, the intended beneficiaries and institutions central to a healthy society indeed benefit from these corporate actions? Systematic descriptive research is just as necessary to examine the consequences of corporate actions as it is to identify their antecedents and the processes that bring them about.

Although we are proposing an alternative starting point for inquiry into the role of the firm in society, we are not making a steadfast normative claim about the appropriate role for the firm in society. The pragmatic stance does not require that other beliefs be relinquished. Those who believe that society is best served if companies focus solely on maximizing wealth can adhere to their convictions, as can those who believe that other stakeholders beyond the shareholder deserve attention, whatever the repercussions for profitability. The aim here is to test a pragmatic belief to determine if acting on the basis of that belief produces the desired consequences. How those consequences are to be weighed and pursued relative to others is a matter for normative theory. Here too, organizational scholarship must extend its efforts.

The challenge for those who study organizations is to investigate what happens when it is assumed that instrumental effi-
ciency and human beneficence, wealth maximization and the amelioration of social misery, and shareholder rights and stakeholder rights all matter. A normative theory of the firm will acknowledge these competing conceptions and accommodate the tension. Instead of trying to assert the legitimacy of one set of claims and deny the legitimacy of the other, or to imagine that all of these competing interests can somehow be synthetically reconciled, theorists must undertake the task of working out the principles and guidelines for managing tradeoffs. A starting point for building such a theory requires a systematic descriptive inquiry into corporations’ responses to calls for an expanded role. These insights can then combine inductively with a rigorous philosophical analysis to construct a normative conception of the firm and its purpose. A descriptive research agenda lays the foundation for the inductive development of a normative theory of the firm. As we investigate how corporations do or do not respond to misery, we can think about how they ought to respond to misery.

TOWARD A NORMATIVE THEORY OF THE FIRM

The antinomy poses a fundamental question for organization theorists and managers: How can business organizations respond to human misery while also sustaining their legitimacy, securing vital resources, and enhancing financial performance? This question may best be addressed through a partnership between systematic descriptive research and inductive normative theory. We need to paint a clear and comprehensive portrait of how firms navigate these competing objectives in their responses to social ills. To do this, economic assumptions about business organizations must be dislodged, though not discarded or discounted, in favor of a pragmatic assumption that permits examination, before cross-examination, of corporate responses to misery. Here we echo a recent call in psychology to investigate complex social phenomena as they occur in the real world before moving to tests of theoretical propositions (Rozin, 2001). A portrait of corporate responses to social misery then informs normative inquiry into the antinomy itself.

Rather than stating the firm’s preeminent role and purpose, defending it, and deductively deriving principles of action that follow, our inductive approach begins with the complex interplay of vying objectives, duties, and concerns. Inductive normative theorizing asks the question, How might the role, purpose, and function of the firm be specified so as to acknowledge a range of inconsistent concerns and still facilitate action? While acknowledging the conflict between social misery and economic efficiency, an inductive normative theory seeks not to resolve the conflict but to clarify the competing considerations, probe what gives them weight, and explore their relationship. The goal is to craft a purpose and role for the firm that builds internal coherence among competing and incommensurable objectives, duties, and concerns (Richardson, 1997). While the aim of our descriptive agenda is to survey the state of corporate responses to social misery, and thereby ascertain how companies do indeed navigate through the antinomy, the aim of our norma-
Social Initiatives by Business

tive agenda is to craft a framework for how companies should navigate that antinomy.

A Descriptive Research Agenda

Firms make social investments in the face of compelling economic reasoning not to do so. The discrepancy between actual practice and the theoretically espoused purpose of the firm prompts a quest for explanation. It is a classic sense-making situation. To make sense of corporate conduct, it is especially appropriate to follow Weick's (1995: 183) counsel to "talk the walk": "To 'talk the walk' is to be opportunistic in the best sense of the word. It is to search for words that make sense of current walking that is adaptive for reasons that are not yet clear." To make sense of corporate responses to misery and discern the function of those responses, we need to understand which firms respond to which social problems, with what consequences, for both the firms and society. It is best to explore this kind of broad research terrain with a map in hand (Weick, 1995: 54–55, 121). Used as a retrospective sensemaking guide, the core theories of organizational decision making and action provide a useful map for this descriptive exploration (Janis and Mann, 1977; Weick, 1979; Tushman and Romanelli, 1985; Cyert and March, 1992). Five areas of inquiry invite descriptive research: how companies extract and appraise the stimuli for action; how companies generate response options; how companies evaluate these options and select a course of action; how the selected course is implemented; and, finally, what consequences follow from corporate efforts to ameliorate social ills. We outline orienting research questions in each of these five areas.

Appraising the stimuli. Researchers first need to understand which social ills garner attention by which firms. Organizations observe feedback from their context (Cyert and March, 1992) or enact their context in such a way (Weick, 1979) that a stimulus for action is recognized and assessed (Kiesler and Sproull, 1982). What then explains which set of issues catch a firm’s attention? Janis and Mann (1977) observed that these stimuli for action often come in two forms: communications and events. Communications to act in the social domain can come both from internal agents (Andersson and Bateman, 2000; Bansal, 2003) and external agents, whether solicited (Adkins, 1999) or unsolicited (Mannheim, 2001). Chronicling who these agents are, what communication tactics they employ, and how the different agents use different communication strategies for greater and lesser effect are all ripe research questions. More must be learned, as well, about the kind of events that trigger, or fail to trigger, corporate action. Why do firms respond to some communications and events and not others? Perhaps a set of features of triggering stimuli increase the likelihood of response. Extant theory suggests that an appellant’s power, legitimacy, and urgency might determine the extent to which managers attend to a claim (Mitchell, Agle, and Wood, 1997). Alternatively, problems and solutions may simply attach themselves to organizations in a

Once the features of the stimulating problems and the organizations involved are better understood, we can then examine how companies appraise this information. Organizations might frame these stimuli as a cost or investment, a burden or responsibility, a threat or an opportunity (Jackson and Dutton, 1988), or some combination of these kinds of polar extremes (Gilbert, 2003), to greater or lesser effect. In the end, descriptive inquiry can unearth the criteria that qualify certain problems for action and guide managers to select, or discard, problems to address.

**Generating response options.** Once a problem has been identified and enacted as warranting a response, a search ensues for a solution (Cyert and March, 1992). How do companies generate response options? The classic dichotomy between behavioral processes, in which an action option is tried and either selected or discarded based on the ensuing feedback (Levitt and March, 1988; Gavetti and Levinthal, 2000), and cognitive processes, in which options are generated and weighed in advance of behavioral trial (March and Simon, 1958; Gavetti and Levinthal, 2000), provide one lens for diagnosing how companies generate responses to social ills. Whether options are tried out first behaviorally and then assessed or cognitively formulated and then assessed before they are executed, we also need greater insight into how the plausible options are generated.

Why do companies end up considering the set of options they do? At least three possible approaches can be identified. First, a firm may deliberately appraise its assets and capabilities and then generate options that tap into these resources (Dunfee and Hess, 2000). UPS, for example, drew on its logistics capabilities when it created a technical service manual for food rescue programs (www.community.ups). Second, a firm may look to potential partners in civil society and develop a relationship that might even grow over time (Sagawa and Segal, 2000). The relationship between Timberland and City Year represents how these collaborations can deepen through the years (Austin, 2000). Finally, the process may be more externally driven and nearly automatic. Companies may identify widely practiced options that adhere to standards of accepted conduct. Galaskiewicz (1991) illuminated the deliberate construction of philanthropic institutions and ideology in Minneapolis–Saint Paul. Once established, the charitable contributions flowed at the same rate each year, regardless of who was leading the firms (Galaskiewicz, 1997).

In addition to identifying the process of generating options, the content of those options begs for systematic descriptive research. Just as the problems that stimulate corporate responses to social ills can be catalogued and analyzed for patterns, so can the content of potential corporate responses. What are companies doing in response to social ills, and what is the range of activities they consider? Two fundamental questions, bearing on the definition of the phenomenon itself, arise at this point for descriptive research. For simplici-
Social Initiatives by Business

ty, we have operated with the assumption that responses to misery are appendages to companies' core productive activity and that corporate social performance consists of responses to human misery. In examining the responses companies actually consider, both of these assumptions open themselves to inquiry. First, to what extent are companies responding with for-profit initiatives, initiatives that treat social ills akin to any other set of business opportunities, discerning a market (Prahalad and Hammond, 2002) or an emergent product class (Tushman and Romanelli, 1985) to be entered or a cost to be reduced? Alternatively, to what extent, and when, do companies respond with charitable activities decoupled from their core for-profit activities, donating some sort of resource? Second, to what extent is corporate social performance truly a response to human misery? The options companies consider, and even the problems that get pressed upon them, may invoke a role that extends beyond a narrow economic function and yet does not touch upon human misery. What is the actual proximity between corporate responses classified as social performance and efforts to redress human misery?

Evaluating options. What assessment criteria are applied to corporate efforts to ameliorate social ills? In making decisions, managers tend to follow a logic of consequences, weighing costs and benefits, or a logic of appropriateness, weighing the fit of potential options with conceptions of their (and the company's) role identity and its implications for the given situation (Cyert and March, 1992; March, 1994). Research can reveal when the criteria are applied: do companies weigh and evaluate potential options in advance of acting (March and Simon, 1958), or do they make sense of their social initiatives retrospectively (Weick, 1979, 1995), assigning a meaningful (but retroactive) explanation for why the selected course was taken?

In unearthing the criteria companies use to assess responses to human misery, descriptive research can reveal how companies wrestle with the competing expectations that contested conceptions of the firm's role and purpose impose. If consequences are used to evaluate response options, the set of consequences may reflect the ways in which conflicting conceptions of the firm's role are being negotiated. For example, what sort of return is assessed when companies evaluate options by calculating a return on investment? Perhaps companies try to calculate the financial benefits to the firm, mimicking the research conducted for over 30 years, or perhaps they employ a more expansive definition of return and focus their attention on worker morale and commitment, corporate reputation in capital and product markets, or the legitimacy gained with regulatory authorities. Alternatively, companies may evaluate the benefits for society, estimating, for example, the greatest humanitarian gain per dollar spent. If so, how is the humanitarian gain assessed? Conflicting conceptions of the firm's role and purpose may also be reflected in how the appropriateness of corporate social initiatives is evaluated. In the face of the shareholder wealth maximization ideology, using criteria of appropriateness permits consistency between this ideology and corporate social initiatives.
Enlightened self-interest (Galaskiewicz, 1991) is one such criterion. It provides economic grounds on which to validate the fit of the economic identity of the firm with virtually any option selected.

**Implementation.** Once problems have been identified and selected, and once response options have been generated and evaluated, a response must be implemented. How then do companies play their social role? How are such contested acts managed? Cyert and March (1992: 164) argued that “most organizations most of the time exist and thrive with considerable latent conflict of goals.” Quasi-resolution of conflict is made possible, in their view, through satisficing decision rules and sequential attention to goals. Corporate efforts to respond to social ills, however, are not only in conflict with other objectives, they are themselves inherently provocative, highlighting in their very purpose their inconsistency with the firm’s economic objective. Therefore, these corporate efforts pose distinct management challenges. Ameliorative initiatives are simultaneously legitimacy-seeking and legitimacy-threatening acts, adhering to one set of expectations, social in nature, while violating another, economic in nature. In addition, as companies find themselves with an elaborated moral personality (Paine, 2002), corporate social initiatives are simultaneously identity-bridging and identity-begging activities: corporate efforts to redress social ills are a means of accommodating a new construal of companies as social institutions while raising fundamental questions about the firm’s purpose. Corporate social initiatives are complicated even more by their mixed motives. Managers may seek to relieve normative and coercive calls for involvement; secure their companies’ legitimacy, reputation, and ability to function; and actually aid society. How are corporate efforts to redress social ills managed—executed, controlled, monitored, and disciplined—amid this crossfire of competing purposes, expectations, identities, and motives? If companies approach prospective action with cognitive maps that outline the course of action and anticipated consequences (Gavetti and Levinthal, 2000), how is the plan converted into action and directed toward the desired consequences? If companies follow a process resembling experiential search (Gavetti and Levinthal, 2000), how is that search—the trial and error process—navigated through the mixture of expectations and motives, so that the firm’s intended aims are met or readjusted?

If one way of navigating equivocal situations is to design equivocal (Weick, 1979: 223–224), ambivalent (Merton, 1976), or ambidextrous responses (Tushman and O’Reilly, 2002), then companies might navigate conflicting expectations and colliding perspectives on their role with an equivocal response. Creative allocation of control and resources may provide business organizations with this sort of dexterity, enabling companies to acknowledge the social ill and gain the benefits of response while sustaining flexibility and minimizing the risks of response (Weick, 1979: 223–224). Design options include make, buy, and hybrid arrangements, each of which entails different types and degrees of investment and control.
Companies may create the responses themselves, the "make" option, when they have a distinctive capability that fits a specific, evident social need (Dunfee and Hess, 2000). Charitable contributions, the "buy" option, may be the selected design option either when a firm lacks any specific capability to address a social need, yet the need is pressing, or when existing institutions have excellent capabilities in the area in which the firm seeks to invest. A "hybrid" strategy, or public-private partnership, may be the option of choice when the firm has something to give and gain from others when it makes its social investments (Austin, 2000). A highly recognizable partner, such as Amnesty International, may reduce uncertainty for managers and increase the likelihood of reputational benefits for the firm. Examples of such partnerships abound (Sagawa and Segal, 2000) and seem to be increasing (Zadek, 2001: 91). Categorizing corporate responses using this scheme of make, buy, or hybrid can provide insight into the factors that shape companies' investment and control decisions surrounding responses to social ills.

Beyond their design, little is known about how companies internally control, monitor, and discipline their social initiatives. First, how much do companies choose to invest, in total and as a percentage of available investment capital, in ameliorating societal ills? Economic logic suggests a level that meets a bare minimum for deriving benefits for the firm (Friedman, 1970), whereas behavioral research suggests that standards of fairness (Kahneman, Knetsch, and Thaler, 1986), irrational by economic standards, may shape allocation decisions. Second, corporate responses to social misery have aims distinct from other corporate activities, so corporate control of these initiatives warrants scrutiny as well. Understanding the forms of control used to steer social initiatives toward their aims and exploring how those forms of control commingle with traditional forms of financial control is central to a descriptive research agenda. The calls for the Securities and Exchange Commission to regulate disclosure of philanthropic contributions (Kahn, 1997; Bagley and Page, 1999; Gillmor and Bremer, 1999) suggest that monitoring and control mechanisms are underdeveloped. With a variety of instrumental, moral, political, and institutional considerations motivating social initiatives, we need to know how corporate social initiatives are monitored and disciplined.

**Consequences.** Although the financial effects of corporate social performance have been extensively studied, little is known about any other consequences of corporate social initiatives. Most notably, as calls for corporate involvement increase, there is a vital need to understand how corporate efforts to redress social misery actually affect their intended beneficiaries. Again, a first step is simply to ascertain the consequences and discern salient patterns. What are the conditions under which positive consequences result for beneficiaries? As firms become involved in fixing societal problems, we also need to know what happens to public political processes. Kahn (1997: 635), for example, was concerned about "the dangers implied by the concentration of not only the factors of production, but also communal resources in the hands of corporate management." The street protests
against the work of the World Trade Organization (Economist, 1999) and both the International Monetary Fund and the World Bank (Economist, 2000) suggest that members of society are asking these same kinds of questions. Some may consider Friedman’s (1970) concerns alarmist, but asking companies to advance educational reform, assist with reproductive health, and fund cancer research does give firms and their executives significant influence over public policy, typically considered to be the domain of elected officials. How do these investments affect the political sphere, most notably democratic processes and accountability? Even if these investments meet their intended humanitarian goals, they might carry unintended consequences for government functioning (Reich, 1998).

Looking beyond the content of corporate programs, the processes through which corporate activities are generated, selected, and implemented may have differential effects worth uncovering. Understanding the consequences of corporate involvement—the impact on targeted problems and on the functioning of other civil and political institutions, as well as on the firm itself—lies at the heart of questions about the relationship between organizations and societies. Research into those consequences can help highlight the tradeoffs of seeking corporate involvement, inform decisions about when to involve and when to limit such corporate involvement, and guide policies for managing the consequences when companies do get involved. Examining and evaluating these consequences, however, invites another line of inquiry, normative in nature.

A Normative Research Agenda

Business organizations operate in the face of a sometimes irreducible conflict between humanitarian needs and economic objectives. As descriptive research begins to capture what companies are doing to respond, the pressing normative question is, How should companies respond? Merton (1976: 88) recognized the problem almost thirty years ago: “Leaders of business have only begun to wrestle with the problem of how to do both in appropriate scale. For they are at work in a rapidly changing moral environment which requires them to make new assessments of purpose.” When contrasted with the clear normative positions evident in economic theories of the firm, and when seen in the shadow of the stark antinomy confronting organizations, organizational scholarship seems conspicuously quiet, in need of a line of systematic philosophical investigation. This integration of philosophical inquiry into organization theory is long overdue (Zald, 1996).

Normative questions prompt two different types of inquiry (Donaldson and Preston, 1995), one reflecting the common social scientific use of the term “normative,” and another, its philosophical use. The social scientific use of normative refers to instrumental and hypothetical guidance, grounded in empirical findings and theories about cause-and-effect relationships. If one wishes to bring about certain outcomes, then research suggests a set of actions that increases the likelihood of those outcomes. In light of prior findings and theoretical models that assemble those findings into orderly
causal associations, normative guidance prescribes advisable behavior if an actor wishes to achieve certain outcomes.

In its philosophical sense, and the way we use it here, normative refers to the underlying justification that gives moral weight (Korsgaard, 1996b): the source of value that makes certain options, decisions, and courses of action worthy of selection. The instrumental benefit of some courses of action is one source of philosophically normative justification, but it begs the deeper question of why those outcomes themselves are to be sought. Normative inquiry of the philosophical sort investigates how we ought to act in light of why, weighing various considerations, that is the right, just, or good course of action (Scanlon, 1992).

Normative theory is directed toward actors on the cusp of taking action. It is about clarifying and constructing the reasons and grounds that ought to inform the actor’s choice of action, rather than discovering the causal explanations of what will occur as a result of the action (Putnam, 1994; Korsgaard, 1996a, 1996b). It is not about advising a course of action based on what will happen to air quality, profitability, corporate reputation, or the docility of regulators if the company lowers factory emissions. Rather, it is about why, upon considering options for action and their potential outcomes, air quality and stock price are worthy of orienting action in the first place and what the actor is to do if a course of action will damage one of those objectives. Putnam (1994: 168) concisely captured the essence of this research orientation: “... the agent point of view, the first-person normative point of view, and the concepts indispensable to that point of view should be taken just as seriously as the concepts indispensable to the third-person descriptive point of view.” The best way to meet this challenge is to build on our descriptive work and follow a philosophical path to this new theory.

The approach to normative inquiry we propose starts with a given situation and asks the question, How should I act? (Moody-Adams, 1990; Korsgaard, 1996a: 205). An inductive approach to normative theory begins with the set of considerations—objectives, duties, and concerns—that arise in trying to answer that question. From the start, an inductive approach takes seriously the conflict among those considerations (Nussbaum, 1986: 81). The aim is to clarify each of the salient objectives, duties, and concerns in light of one another, permitting further specification of each and greater understanding of the relationship among them (Richardson, 1997). Tensions are not irritants to be removed by dismissing certain considerations or justifying the preeminence of others. Instead, the inductive approach uses tensions and inconsistencies between considerations to prompt elaboration and clarification of each objective, duty, and concern. The inductive route travels from identifying a core set of considerations (Rawls, 1971; Scanlon, 1992) to juxtaposing them so as to elaborate their moral weight and refine them (Nussbaum, 1986; Richardson, 1997), especially in light of the specific situation being examined. A framework for action is then formulated by exploring how these considerations interact with features of the situation, specifying what is obligatory, permissible, and prohibited.
To take up our specific antinomy, a first step is to identify and probe the set of objectives, duties, and concerns that arise when business organizations confront the question of whether to help redress human misery. We need to identify the central considerations underlying the initial concerns and judgments provoked by the question (Rawls, 1971; Scanlon, 1992). For example, at least three economic arguments against corporate efforts need to be explored. The first represents the claims of property (Hsieh, 2003), claims that give rise to concerns about misappropriation. The rightful claimants to certain resources ought not to have those resources used for purposes they neither license nor receive compensation for. Second, there are concerns surrounding efficiency (Donaldson and Dunfee, 1999). Resources should be devoted to purposes for which they are designed and not misallocated to purposes for which they are not well suited. Third, there are concerns of due process, which require that even justifiable actions be taken in accord with procedures that respect rights and afford subsequent accountability.

Juxtaposed to these three concerns are three forms of the duty to aid and respond. First, there is the duty to respond that attaches to a company when it contributes to the conditions that necessitate a response, conditions that create some form of cost, violation, or degradation that others bear. This is the intuitively sensible but intellectually complex terrain in which causal responsibility gives rise to moral responsibility (Hart and Honoré, 1985; Schoeman, 1987). Second, there is the duty to respond to deleterious or unjust conditions from which a company benefits, but to which it has not contributed (Hsieh, 2003). This is an acute extension of the domain of fair play (Rawls, 1971; Applbaum, 1996; Phillips, 1997), in which the derivation of benefits (even from unwitting parties) calls for some compensatory exchange. Even when a company compensates those from whom it has derived immediate benefits, such as assembly workers in low-wage countries, further duties may exist because those benefits are made possible by the persistence of unjust conditions (Kant, 1963: 194–195; Herman, 2002). Third, there is the duty of beneficence (Murphy, 2000; Herman, 2002): the duty to promote the well-being of others, in particular to provide aid to prevent or relieve suffering or dire conditions (Murphy, 2000: 3; Herman, 2002). The immediate fear is that this last source of duty has no limit. Although seemingly insatiable, the duty of beneficence has been circumscribed by philosophers (Elster, 1989: 56; Murphy, 2000; Herman, 2002; Hsieh, 2003) through what one philosopher has termed “the collective principle of beneficence” (Murphy, 2000: 7): an individual need only aid others to the extent that would be required were everyone to comply with the duty to aid others.

The purpose of inductive theory is to provide neither a way to reconcile the two sets of considerations nor a method, theory, or argument that demonstrates the dominance of one set of claims over another (Nussbaum, 1986; Richardson, 1997). It is certainly possible that when cast in one another’s light, juxtaposed considerations might suggest means of reconciliation or illuminate the clear priority of some considerations.
Social Initiatives by Business

over others. That would be a propitious product, but not the intended purpose of inductive normative theorizing. The aim is to understand the compelling grounds that exist for taking alternative courses of action and to refine those grounds in light of one another. To illustrate, when concern with efficiency and misallocation is juxtaposed with the duty to aid, counterintuitive conclusions may emerge. It may well be true that companies are poorly suited to respond to illiteracy or contaminated water, problems to which, in addition, a company has not contributed. But it may nonetheless be that corporate efforts to ameliorate these problems are at least permissible, if not obligatory. Under a duty of beneficence (Herman, 2002) or assistance (Hsieh, 2003), firms have grounds for assisting those in need, regardless of corporate culpability for the problem. If no other institutions are positioned or equipped as well as business organizations to respond, then concerns with misallocation look quite different from the classic case in which a more efficient response is available. The converse may also be true. For example, if the release of mercury into water can be traced directly to a company, the strongest grounds for obligatory response may exist. But concerns with efficiency and proper allocation of institutional instruments might suggest that, under some conditions, companies be left as unencumbered as possible to fulfill a wealth-producing purpose. As a result, even in those instances in which companies either have a justifiable responsibility or their involvement in redressing social misery would be valuable, society should find alternative ways to fulfill the responsibility and meet the need, so as not to dilute companies’ capacity to produce wealth. The duty to aid, in this case, looks quite different in the light of concerns for the efficient allocation of societal resources.

This brief example can only outline the process of inductive normative analysis, highlighting two of its features. The first is that normative inquiry of the inductive sort requires a systematic process of setting competing objectives, duties, and concerns side by side and exploring the range of conclusions that can be drawn when interaction effects are explored. The second is that this juxtaposition and analysis requires a return to the specific content of the situation that posed the question of how to act in the first place. But then how does one proceed with the motivating question, how should the firm act? One proceeds by scrutinizing the conditions under which the vying considerations have been invoked.

If articulating the central considerations that bear on a normative question is the first step of the inductive approach, and if juxtaposing those considerations in order to refine them individually and explore their relationship is the second step, then a third step consists of working out how competing considerations are to be integrated into a course of action. Integration clarifies what is to be done, formulating a framework for action by exploring how the colliding considerations interact with features of the situation. For corporate social initiatives, three sets of features will interact with normative considerations to shape the framework for action. How a company should respond will be a function, in part, of features of the problem, features of the company—in particular,
the company’s relationship to the problem—and features of the impact the company’s response would have.

**Features of the problem.** Features of the specific societal ill to which a company is considering a response include its depth and breadth. The proper corporate response to a societal ill will hinge in part on the severity of the ill’s effect on essential human functioning (Herman, 2002). What is considered essential to human functioning is of course subject to debate, so it is helpful to draw on the idea of human capabilities advanced by Sen (1985, 1992, 1993) and Nussbaum (1988, 2000). Based on Aristotle’s conception of the virtues, economic and anthropological research on developing countries, and political philosophy, Sen and Nussbaum identified ten domains of human capability vital “to truly human functioning that can command a broad cross-cultural consensus” (Nussbaum, 2000: 74). They include such factors as bodily health (having adequate nourishment, medical care, and shelter), control over one’s environment (effectively participating in the political choices that govern one’s life, holding property, and access to employment), emotions (experiencing the range of emotions essential to human life), and affiliation (having meaningful personal and work relationships of mutual recognition and dignity).

Whether the vying objectives, duties, and concerns intersect to obligate, permit, or proscribe a corporate response will hinge, in part, on the magnitude, the depth and breadth, of the problem’s consequences for these central human capabilities. The preliminary assessment of depth focuses on whether the problem plagues an essential human capability. Then assessments of degree must be made. The severity of the problem must be considered: does the problem entail active impairment of a capability or failure to promote, but not active impairment of, the capability? Alongside these two assessments of depth, the breadth of the problem must also be considered. How many capabilities are affected, and how many people are affected? Sizing up the problem opens many questions. For example, it can be difficult to distinguish between an impairment and absence of enhancement. Illiteracy can be seen in either light. The line between essential capabilities and less-than-essential capabilities can also be difficult to draw. Support for the arts may reasonably fall on either side of that line. Our aim here is to sketch the process of inquiry; the absence of clear answers underscores the importance of dedicated attention to these questions.

**Features of the firm.** The features of the firm’s relationship to the problem also bear on how a company ought to respond to a societal ill. First, there is the company’s contribution to the problem. Presumably, a problem created by the firm, or one to which it has contributed sizably, will impose a stronger duty to act than a problem not of the firm’s making. Second, the company’s potential contribution to the problem’s solution must be considered. The relevance of the firm’s capabilities and resources to the societal ill being considered bears on the efficiency and effectiveness of the company’s response, which in turn shape the strength of an imperative to respond. Third, the response required may vary in strength with a company’s proximity to, or extent of mem-
b ership in, the community in which the need arises (Herman, 2002). Finally, the duty to respond may also vary with the benefits the corporation derives from the aggrieved constituency (Hsieh, 2003). Chevron Texaco may have limited firm-specific capability to provide what Nigerian communities demand of it, but the integral presence of the company in Escravos, Nigeria and the benefits the company derives from its oil extraction facilities, even if those benefits are the result of explicit legal contracts, may obligate or at least license the firm to do more to redress societal problems there (Moore, 2002). Only systematic normative analysis can work out the imperative of a response under these conditions.

Features of the impact. The anticipated impact of a corporate response will also determine the ethical standing of that response. Features of the impact include the effects a corporate response is likely to have on the problem, on the larger society, and on the firm itself. The results of our descriptive research agenda should help decipher these impacts. These likely consequences will bear on the determination of whether a firm’s response is permissible, prohibited, or even obligated. Exploring how negative consequences are to be weighed against positive consequences requires a thorough normative analysis. A company that can provide a quicker solution than a government agency to a problem may also, in so doing, weaken (or retard the development of) political institutions essential to representative democracy. How are these consequences to be weighed, not only in determining whether corporate action is permitted but, if it is permitted, in shaping how a response is selected, designed, and implemented?

Boundaries. Understanding the impact that a corporate response might have is also essential for understanding where the boundaries to corporate responses are erected. Contrary to the fears of some and the hopes of others, the moral foundations for corporate responses to misery do not necessarily dictate that social objectives be given as much attention as economic objectives. Business organizations may have duties and responsibilities that reach beyond economic ones, but this does not itself imply that those duties and responsibilities require comparable attention, advancement, or resources. There are two sorts of boundaries to consider. One set protects the recipients of aid, reflecting the negative consequences that can result from efforts to provide assistance. For example, the type and delivery of aid must aim to reverse dependence rather than reinforce it (Herman, 2002; Hsieh, 2003; Rawls, 1999: 111). The second set protects the firm’s capacity to perform its primary function, or functions, reflecting the potential impairment that responding to misery can entail. If a primary function of a business organization is to produce goods and services and, in so doing, generate wealth, then the firm’s capacity to perform that function receives special protection. Again, contrary to the hopes of some and fears of others, this boundary is capacious. To be clear, it is the capacity of the firm to perform one of its central functions that cannot be sacrificed, not actual performance of the function itself. If a company reduces its profitability or productivity in order to ameliorate misery, that is more likely to lie within the permissible
boundary, whereas efforts to ameliorate misery that impair the company's capacity to be profitable or productive would more likely be prohibited.

CONCLUSION

Managers face a vexing reality. They must find a way to do their work even as seemingly rival financial and societal demands intensify. To make matters worse, each demand can be justified or explained away by a particular conception of the firm. These dueling conceptions have inspired a generation of organizational scholars to posit and demonstrate the economic benefits of corporate responses to social misery. This has left a considerable gap in our descriptive and normative theories about the impact of companies on society. The scholarly agenda we envision accepts this tension as a starting point. The dispute among justifiable but competing demands reflects the reality that firms face in society today. By honoring the dispute and exploring the tension, we offer a different starting point for organization theory and research. In the end, this new scholarship can inform managers and citizens alike as we struggle to meet these daunting challenges.

The practical significance of the research agenda before us is no less weighty than its theoretical implications. Public pressure to satisfy each set of responsibilities, to shareholders and to other stakeholders, continues to mount (Useem, 1996; Paine, 2002). Accountability, however, can distort behavior as much as it can enhance it (Lerner and Tetlock, 1999). Organization theory and research may illuminate how organizations can move closer to actual fulfillment of those responsibilities, rather than offering the mere appearance of doing so (King and Lenox, 2000). What organizational scholars have to say about corporate involvement in societal affairs seems essential, for the risks of involving companies in broad societal problems may match the risks of excluding them: corporate involvement in addressing targeted problems is no guarantee of improvement, and organizations may only further insinuate themselves into all aspects of human life (Rosen, 1985; Kunda, 1992; Willmott, 1993). Corporate involvement may well make problems worse, or even create new ones, while reducing companies' effectiveness as economic instruments.

What is being asked and expected of corporations today is increasing even as the economic contractarian model of the firm itself has revealed clear practical limitations (Gordon, 2002). The free market may not produce the inexorable march toward worldwide prosperity and well-being that is so often anticipated (Stiglitz, 2002). Even as business organizations may be imperfect instruments for advancing a narrowly construed wealth-maximizing objective, ironically, they may also be the entities of last resort for achieving social objectives of all stripes. In the face of these challenges, organization theory and research can contribute to the construction, reform, and assessment of the organizations and institutions that play such an essential role in society (Stern and Barley, 1996; Perrow, 2000; Hinings and Greenwood, 2002).

Manifest human misery and undeniable corporate ingenuity should remind us that our central challenge may lie in blend-
Social Initiatives by Business

The many organizational scholars who have investigated the relationship between social and financial performance have been eager to develop empirically informed theory that stimulates, if not guides, practice. Paradoxically, by acknowledging the fundamental tension that exists between the roles corporations are asked to play, organizational scholars have the opportunity to inform practice—and thereby help society—where past efforts to remove the tension have fallen short. Before rushing off to find the missing link between a firm’s social and financial performance, all in hopes of advancing the cause of social performance, we need to understand the conditions under which a corporation’s efforts benefit society. This asks us to question corporate social performance and competing conceptions of the firm down to their very roots. Personal values and commitments will no doubt orient the theories we prefer and the research questions we ask. To honor those values and commitments, however, we must acknowledge and question them. Such appraisals ensure the quality of our research and the integrity of our commitments.

REFERENCES


Belkaoui, A., and P. G. Karpik
1989 "Determinants of the corporate
decision to disclose social information." Accounting,
Auditing and Accountability Journal, 2: 36–51.

Berle, A. A., Jr.
1931 "Corporate powers as powers in trust." Harvard Law

Berman, S. L., A. C. Wicks, S.
Kotha, and T. M. Jones
1999 "Does stakeholder orientation matter? The relationship
between stakeholder management models and firm

Blacconiere, W. G., and W. D.
Northcut
1997 "Environmental information and market reactions to envi-

Blacconiere, W. G., and D. M.
Patten
1994 "Environmental disclosures, regulatory costs, and changes in

Blackburn, V. L., M. Doran, and
C. B. Shrader
1994 "Investigating the dimensions of social responsibility and the

Bowman, E. H.
1978 "Strategy, annual reports, and alchemy." California Manage-

Bowman, E. H., and M. Haire
1975 "A strategic posture toward corporate social responsibil-

Boyle, E. J., M. M. Higgins, and
S. G. Rhee
1997 "Stock market reaction to ethical initiatives of defense
contractors: Theory and evidence." Critical Perspectives on
Accounting, 8: 541–561.

Bradley, M., C. A. Schipani, A. K.
Sundaram, and J. P. Walsh
1999 "The purposes and account-
ability of the corporation in contemporary society: Corporate

Bragdon, J. H., Jr., and R. Karash
2002 "Living-asset stewardship: How organizational learning leads to exceptional market

Bragdon, J. H., Jr., and J. A. T.
Marlin
1972 "Is pollution profitable?" Risk

Bratton, W.
1989a "The new economic theory of
the firm: Critical perspectives from history." Stanford Law
1989b "The ‘nexus of contracts’ corpo-

Brown, B.
1997 "Stock market valuation of reputation for corporate social
1998 "Do stock market investors reward reputation for corpo-

Brown, B., and S. Perry
1994 "Removing the financial per-
formance halo from Fortune’s ‘most admired’ companies." Academy of Management Journal, 37: 1347–1359.

Buehler, V. M., and Y. K. Shetty
1976 "Managerial response to social responsibility chal-

Caplow, T., L. Hicks, and B. J.
Wattenberg

Carleton, W. T., J. M. Nelson, and
M. S. Weisbach
1998 "The influence of institutions on corporate governance

Chen, K. H., and R. W. Metcalf

Christmann, P.
2000 "Effects of ‘best practices’ of
environmental management on cost advantage: The role

Clarkson, M. B. E.
1988 "Corporate social perfor-

Cochran, P. L., and R. A. Wood
1984 "Corporate social responsibili-

Cohen, M. D., J. G. March, and
J. P. Olsen

Conine, T. E., Jr., and G. P.
Madden
1986 "Corporate social responsi-

Conley, D.

Cottrill, M. T.
1990 "Corporate social responsibili-

Cowen, S. S., L. B. Ferreri, and
L. D. Parker
1987 "The impact of corporate characteris-
tics on social responsibility disclosure: A typology and frequency-based analysis." Accounting, Organiza-
tions and Society, 12: 111–222.

Cyert, R. M., and J. G. March
1992 A Behavioral Theory of the Firm, 2d ed. Malden, MA:
Blackwell.

Greening, D. W.

Gregory, A., J. Matatko, and R. Luther

Greider, W.

Griffin, J. J., and J. F. Mahon

Guerard, J. B., Jr.
1997a “Is there a cost to being socially responsible in investing?” Journal of Investing, Summer, 6 (2): 11–18.


Hamilton, S., H. Jo, and M. Statman


Hart, S. L., and G. Ahuja

Heinze, D. C.

Herman, B.

Herremans, I. M., P. Akathaporn, and M. McNees

Hickman, K. A., W. R. Teets, and J. J. Kohls

Hillman, A. J., and G. D. Keim

Hinings, C. R., and R. Greenwood

Hirsch, P. M., R. Friedman, and M. P. Koza

Hodson, R.

Holman, W. R., J. R. New, and D. Singer

Holmes, S. L.

Hsieh, N.

Hylton, M. O.

Ibbotson Associates

Ingram, R. W.

Ingram, R. W., and K. B. Frazier

Jackson, S. E., and J. E. Dutton

James, W.

Janis, I. L., and L. Mann

Jensen, M.

Johnson, L., and D. Millon

Johnson, R. A., and D. W. Greening

Jones, R., and A. J. Murrell

Jones, T. M.
Social Initiatives by Business

Jones, T. M., and A. C. Wicks

Judge, W. Q., Jr., and T. J. Douglas

Kahn, F. S.

Kahn, R. N., C. Lekander, and T. Leimkuhler

Kahneman, D., J. L. Knetsch, and R. H. Thaler

Kant, I.

Kanter, R. M.

Kaptein, E. B.

Kedia, B. L., and E. C. Kuntz

Keeley, M. C.

Kiesler, S., and L. Sproull

King, A. A., and M. J. Lenox

Klassen, R. D., and C. P. McLaughlin

Klassen, R. D., and D. C. Whybark

Konar, S., and M. A. Cohen


Korsgaard, C. M.
1996a “Creating the kingdom of ends: Reciprocity and responsibility in personal relations.” In Creating the Kingdom of Ends: 188–221. New York: Cambridge University Press.

Korsgaard, C. M.

Korten, D. C.

Kunda, G.

Kurtz, L., and D. DiBartolomeo

Lashgari, M. K., and D. R. Gant

Lerner, J. S., and P. E. Tetlock

Lerner, L. D., and G. D. Fryxell

Levitt, B., and J. G. March

Levitt, T.

Levy, F. K., and G. M. Shatto

Luck, C., and N. Pilote

Luther, R. G., and J. Matalko

Luther, R. G., J. Matalko, and D. C. Corner

Maddock, K. E., and J. J. Siegfried

Madeley, J.

Mahapatra, S.

Makower, J.
Social Initiatives by Business

Paine, L. S.

Parket, I. R., and H. Elbirt

Patten, D. M.


Pava, M. L., and J. Krausz

Perrow, C.

Phillips, R. A.


Poole, M. S., and A. H. Van de Ven

Porter, M. E.

Porter, M. E., and C. van der Linde

Posnikoff, J. F.
1997 "Disinvestment from South Africa: They did well by doing good." Contemporary Economic Policy, 15 (1): 76-86.

Post, J. E., L. E. Preston, and S. Sachs

Prahalad, C. K., and A. Hammond

Prahalad, C. K., and S. L. Hart

Preston, L. E.

Preston, L. E., and D. P. O'Bannon

Preston, L. E., and H. J. Sapienza

Putnam, H.

Ranganathan, J.

Rawls, J.


Reich, R. B.

Reimann, B. C.

Reyes, M. G., and T. Grieb

Riahi-Belkaoui, A.

Richardson, A. J., M. Welker, and I. R. Hutchinson

Richardson, H. S.

Roberts, R. W.

Rockness, J., P. Schlachter, and H. O. Rockness

Roman, R. M., S. Hayibor, and B. R. Agle

Rosen, M.

Rozin, P.

Russo, M. V., and P. A. Fouts
Social Initiatives by Business

Waddock, S. A., and S. B. Graves

Weick, K. E.

Willmott, H.
1993 “Strength is ignorance; slavery is freedom: Managing culture in modern organizations.” Journal of Management Studies, 30: 515–552.

Wokutch, R. E., and E. W. McKinney

Wokutch, R. E., and B. A. Spencer

Wolfe, R. A., and D. S. Putler

Wolman, W., and A. Colamosca

Wood, D. J., and R. E. Jones

World Bank

Wright, P., and S. P. Ferris

Wright, P., S. P. Ferris, J. S. Hiller, and M. Kroll

Zadek, S.

Zald, M. N.