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The Worth of Values – A Literature Review on the Relation Between Corporate Social and Financial Performance

Pieter van Beurden
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ABSTRACT. One of the older questions in the debate about Corporate Social Responsibility (CSR) is whether it is worthwhile for organizations to pay attention to societal demands. This debate was emotionally, normatively, and ideologically loaded. Up to the present, this question has been an important trigger for empirical research in CSR. However, the answer to the question has apparently not been found yet, at least that is what many researchers state. This apparent ambivalence in CSR consequences invites a literature study that can clarify the debate and allow for the drawing of conclusions. The results of the literature study performed here reveal that there is indeed clear empirical evidence for a positive correlation between corporate social and financial performance. Voices that state the opposite refer to outdated material. Since the beginnings of the CSR debate, societies have changed. We can therefore clearly state that, for the present Western society, “Good Ethics is Good Business.”

KEY WORDS: Corporate social responsibility, Corporate social performance, Corporate financial performance, Literature review, Friedman

Both authors contributed equally to this research. The authors' names appear in alphabetical order.

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Introduction

The debate concerning Corporate Social Responsibility (CSR) touches upon issues relevant to the phenomena of the modern economy and their consequences for individuals, societies, and organizations. However, CSR is not really a new debate, nor is it a fad (cf. Wu, 2002). CSR actually comprises the notion that organizations have to meet the expectations of society (Gössling and Vocht, 2007). CSR is an answer to the societal uncertainties that business corporations have to cope within the present dynamic, global, and technological social contexts.

The pressure for corporate accountability is increasing (Waddock, 2004). This holds for legal, social, moral, and financial aspects. Government restrictions with respect to social conduct are increasing, even in times of liberalization. Customer demands are rising with the increasing transparency of markets. On top of this, customers are asking for sustainable products (Gauthier, 2005). Increasing numbers of investors are not only looking at the financial performance in a corporation's portfolio, but are also valuing the way corporations meet their social responsibilities (Barnett and Salomon, 2006). All these developments shift the focus of corporate attention from a merely financial orientation to a much broader one. If society can decide that corporations have responsibilities toward stakeholders, we can expect corporations to be held accountable for their social performance (Gössling, 2003). This applies to their actions, as well as to the outcomes that result from these actions (Freeman, 1994).

The concept of CSR has a long tradition in the social sciences (Garriga and Melé, 2004). A central statement made by Friedman (1970) is still widely accepted today (cf. Carter et al., 2000; Chand, 2006; Frooman, 1997). Friedman stated that managers' only responsibility was to increase shareholders' wealth. He thus focused on a very distinct aspect of corporate and managerial responsibility. Managers and even executives are employees of the stockholders. Therefore, their only responsibility is "to conduct the business in accordance with their [the owners] desires to make as much money as possible conforming to the basic rules of society" (p. 13).

Contrary to this, Freeman (1994) argued that social performance is needed to attain business legitimacy. Managers have a fiduciary responsibility to all stakeholders and not just to shareholders. Freeman's statement anticipated later research on the link between social responsibility and financial performance and suggested a positive correlation between the two in the long run. The central idea in stakeholder theory is that the success of an organization depends on the extent to which the organization is capable of managing its relationships with key groups, such as financiers and shareholders, but also customers, employees, and even communities or societies.

Much of the present research on the question concerning whether business ethics has a financial payoff refers to the views of Friedman or Freeman. The concepts of CSR and stakeholder theory are fundamental to the study of business and society (cf. Maron, 2006).

But to what extent can we use the arguments and understandings of these researchers in discussing the concepts of CSR nowadays? Ruf et al. (2001) stress the need for caution with respect to the maturity of research evidence. They acknowledge that changes in economic development, national or local security, and expectations of society will influence how social performance is defined and how it involves stakeholders and thus the performance of a corporation.

There is a high need for understanding the implications of CSR. Organizations have been encouraged to move toward socially responsible behavior for both moral and practical business incentives (Maron, 2006). In fact, the ethical perspective of studying CSR is making way for a more economic approach or at least a

more business-integrated approach (Doane, 2005; Gauthier, 2005; Stormer, 2003). This study focuses on the relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP). Furthermore, it identifies factors that influence this relationship. The research question is: *What is, according to the literature, the relationship between Corporate Social Performance and Corporate Financial Performance, and which factors have an influence upon it?*

In Section "Defining and measuring Corporate Responsibility and Performance," we will describe the theoretical background. More specifically, we will explain the principal approaches that are often used in CSR research and how CSR and CSP are measured. Furthermore, we will explore and explain the importance of the link between CSP and CFP. Subsequently, we will present an overview of published research results. In Section "Consequences of Corporate Social Performance," we will provide the definitions for the different concepts used in this study. Section "Methodology" explains the methodology and the categorization of the variables. Section "Results" presents the results of the literature study. And finally, Section "Conclusion" discusses the results.

Defining and measuring Corporate Responsibility and Performance

There is no consensus on what exactly should be included in the social responsibility of organizations (Frederick, 1994; Griffin, 2000). CSR has been described as the obligation of organizations to be accountable for their environment and for their stakeholders in a manner that goes beyond mere financial aspects (Gössling and Vocht, 2007). A particular definition, which puts the concept in a broad yet understandable perspective, was presented at the World Business Council for Sustainable Development: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as of the local community at large" (Holme and Watts, 1999, p. 3). Another definition of CSR has been stated by Carrol (1979) and has been used by many scholars in the field: "The social

responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (p. 500).

Hence, CSR is relevant on different levels within and outside organizations and is therefore difficult to measure. Wood (1991) distinguishes three principles of CSR which each operate on a different level. (1) The principle of legitimacy. This principle operates on an institutional level. (2) The principle of public responsibility. This principle operates on an organizational level. (3) The principle of managerial discretion. This principle operates on an individual level. Goll and Rasheed (2004) suggested that acting in a socially responsible way is a consequence of a deliberate managerial choice that results from internal decision processes, which are of a complex nature.

Corporate Social Performance is a way of making CSR applicable and putting it into practice (Maron, 2006). CSR is not a variable and therefore impossible to measure. CSP, on the other hand, though difficult to measure, can be transformed into measurable variables. In current research and consultancy, different approaches exist. What all these approaches have in common is that they are multi-dimensional constructs that measure organizational behavior across a wide range of dimensions, such as investments in pollution control equipment, sustainable investment and internal behavior, or a wide range of processes, such as treatment of women and minorities, relationships with customers, and outputs such as community relations and philanthropic programs (Waddock and Graves, 1997). CSP assesses a company’s general stance with respect to a complex range of concerns relevant to the social field (Graves and Waddock, 1999).

Carrol (1979) described the social responsibility of firms as going beyond economic and legal concerns, and described this additional responsibility as an aspect of CSP. Two other aspects of CSP were also defined in this study. The first is the enumeration of the issues to which the social responsibility is tied and which are subject to change and differ between industries. The second is a specification of the philosophy of response, which can be described as social responsiveness. These three aspects are important because they are interrelated and build the link between social responsibility and social performance. Wood (1991, p. 693) defined CSP as “a business

organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm’s societal relationships.” This definition makes social performance suitable for objective measurement. Hence, CSP can be seen as a concept integrated into doing business, but one that must be abstracted from business operations to gain a better understanding of the relationship between business and society. CSP as a concept is useful in providing a consistent framework for the field of business and society (Wood, 1991).

One of the oldest questions in moral philosophy is whether it pays to be a morally good person (Flew, 1973; Gössling, 2003). Likewise, one of the oldest and most important questions in the CSR context can be formulated as follows: “Social performance may be good for society, but does it pay?” (Brown, 1998, p. 271). Theoretically, it is not obvious that moral behavior is financially and economically beneficial (cf. Brown, 1998; Gössling, 2003).

Both CSP and CFP are broad meta-constructs. Definitional differences make categorization of CSP and CFP difficult. In CSR research, the concepts of CSP and CFP have been applied and correlated (cf. Margolis and Walsh, 2003; Orlitzky et al., 2003). Even though there are diverse approaches to measure the two, the different results of these researches can be compared if the comparison takes measurement differences into account (Griffin and Mahon, 1997). The first impression is a field of mixed evidence: some studies on CSP and CFP show a positive relationship (Griffin, 2000; Maron, 2006; Orlitzky et al., 2003; Wu, 2006). Others find negative correlations (Griffin and Mahon, 1997). But according to McWilliams and Siegel (2000), much of the existing research suffers from important empirical and theoretical limitations.

Frooman (1997) investigated the relationship between CSP and CFP in the finance literature. His results suggest that firms that act in a socially irresponsible or illegal way have decreasing shareholder wealth. This implies that acting socially responsible and law abiding is necessary to increase shareholders wealth. Although it seemed that there was a surprisingly high number of studies that found a negative relationship between CSP and CFP, Roman et al. (1999) rearranged published material and came to another conclusion. The reclassification caused a

dramatic decrease in the number of studies that showed a negative correlation. One of the reasons for this decrease was that Roman et al. described a negative effect causing a negative result as a positive relation. Roman et al. (1999) thus presented a more accurate picture of the relationship in research. The majority of the investigated studies showed a positive relation (33 studies), 14 studies did not find any relation, and only five studies found a negative result. Orlitzky et al. (2003) included 52 articles, only 18 of them were published in 1990 or later. They also find support for a positive relationship between CSP and CFP. The findings are supported by Margolis and Walsh (2003), who described a mixed evidence in the debate. However, the majority of research included in their text analysis is positive. Goll and Rasheed (2004) also suggest a positive picture of the CSP–CFP link.

De Bakker et al. (2005) made a bibliometric analysis of research and theory development on CSR and CSP. Their results support both progression and variegation of the field. They argued that CSR has become a strategic and managerial tool and suggested that the field would benefit from more in-depth analysis of different studies.

Allouche and Laroche (2005) investigated the relationship between CSP and CFP using a meta-analysis. The results are conclusive and show that CSP has a positive impact on CFP. Moreover, they argue that, despite publication biases within the field, it is possible to show a positive CSP–CFP relation.

More recently, Wu (2006) investigated the link between CSP and CFP. He investigated the role of firm size as related to CSP. He found a positive relationship between CSP and CFP, which confirms the view that the costs of being socially responsible are low and that firms may even benefit from socially responsible actions. According to Wu (2006), firm size has no visible effect on CSP or on CFP. To complete this overview, Maron's (2006) unified theory of the CSP–CFP link should be included. Maron stated that his theory identifies two opposing forces – CSR-related rewards and costs – which then can explain all the possible relationships between CSP and CFP.

The identification of the factors that influence the relationship between CSP and economic performance may stimulate organizations to become involved in sustainability and CSR issues. Of course,

neither a positive statistical and even causal relationship between CSP and CFP can guarantee that the investment in CSR will eventually pay off for every individual company (cf. Vogel, 2005). However, it is a central characteristic of every kind of investment that the payoff is not guaranteed. A positive correlation between CSP and CFP would indicate that investment in CSR is likely to pay off. It would indicate that the argument that CSR only involves costs for organizations without being related to profit and that, therefore, CSR is a waste of money for organizations is not a valid argument.

The literature on the definition of CSR and CSP is inconclusive (De Bakker et al., 2005), as is the literature on the relationship between CSP and CFP. This link has been studied extensively, but outcomes fail to be consistent. Davidson and Worrell (1990) give three reasons for the lack of consensus existing in the field: (1) the use of questionable social responsibility indexes, (2) Poor measurement of financial performance, and (3) Unsuitable sampling techniques. Ruf et al. (2001) suggest that reasons for inconsistency include a lack of theoretical foundation, a lack of systematic measurement of CSP, a lack of proper methodology, limitations on sample size and composition, and a mismatch between social and financial variables. All these reasons point toward a need for an in-depth analysis of the CSP–CFP link and a more comprehensive investigation of the existing research. Hence, the variability and inconsistency in the results of studies in this field are of concern (Griffin and Mahon, 1997; Maron, 2006; Preston and O'Bannon, 1997; Wu, 2006). It is not surprising that the need for a unified theory has been proposed (Maron, 2006), which, however, demands more research (Griffin, 2000; Waddock and Graves, 1997).

Consequences of Corporate Social Performance

When looking at the financial consequences of CSR, differences in the measurement of CSP and CFP need to be considered carefully, as they can influence the research outcomes (Orlitzky et al., 2003; Wu, 2006). Brown (1998) takes this position and argues that inconsistency in the measurement of CSP causes problems for analyzing the relationship

between CSP and CFP. Hence, it is important to know which kind of measurement is being used in the different relationships. To overcome definitional differences, it is important to outline these two concepts explicitly and clearly in the conceptual model in this study.

In order to build a theoretical model around the concept, it is necessary to recognize the different dimensions and include multiple dimensions, if we are to have an appropriately representative construction (Allouche and Laroche, 2005; Waddock and Graves, 1997).

This research describes CSP as a concept consisting of three categories, which can be described as follows: CSP 1 : the extent of social disclosure about matters of social concern (Wu, 2006); disclosure measurement consists of the content analysis of corporate disclosures to the public (Orlitzky et al., 2003), CSP 2 : corporate action, such as philanthropy, social programs, and pollution control; corporate action refers to concrete observable CSR processes and outcomes. Questionnaires addressed to employees or managers are included in this category because they directly reflect actions of the firm in question. CSP 3 : corporate reputation ratings such as KLD, Fortune, Moskowitz, and Business Ethics (Wu, 2006); these reputation ratings assume that CSP reputations are good reflections of underlying CSR values and behaviors.

Economic performance is also in need of further introduction. Research shows that there is a difference in the prediction of financial performance between market-based measures of CFP and accounting-based measures of CFP (Orlitzky et al., 2003; Wu, 2006). In this research, CFP is the instrument used to measure Economic Performance and consists of two categories. CFP 1 is the first category and incorporates market-based measures. Market-based measures include stock performance, market return, market value to book value, price per share, share price appreciation, and other market-based measures. Stock market participants determine a firm's stock price and consequent market value, and then base their decisions on their perception of past, current, and future stock returns (Orlitzky et al., 2003). This is influenced by social performance. CFP 2 is the second category for measuring CFP, incorporating accounting-based measures. Accounting-based measures consist of profitability

measures, asset utilization, such as return on asset and asset turnover, and growth (Wu, 2006). The accounting-based measures reflect an organization's internal efficiency, which is influenced by the organization's social performance. Both measurements are included because they both have advantages. Davidson and Worrell (1990) prefer the market measurements. They argue that it is almost impossible to isolate CSR activities. Furthermore, market-based measurements for CSP relate more closely to shareholders' wealth. Investors are only concerned about accounting-based measurements when they affect shareholders' wealth (Davidson and Worrell, 1990). Wu (2006) concludes that studies using market measurements report a smaller relationship between CSP and CFP than studies using other measurements, such as profitability measurements, asset utilization, and growth. Wu (2006) sees the latter as a better predictor of social performance than market measurements.

Methodology

This paper utilizes the techniques commonly found in literature studies. Given the huge amount of published material dealing with the variables in this research, as well as their various relationships to one another, a detailed meta-analysis of the data situation appears to be most appropriate. Such a meta-analysis would also be in line with the explicit need that has been expressed by several experts in this field of research (cf. Roman et al., 1999; Waddock and Graves, 1997; Wu, 2006).

In the process of reviewing the literature, we uncovered factors that influence the relationship between CSP and CFP in an inductive way, namely by searching for factors that have been acknowledged by the included studies as influencing the relationship between CSP and CFP, such as moderating variables and control variables. The units of analyses are the studies included in this research that meet the inclusion and exclusion criteria. The data consist of literature. We followed the qualitative data analysis proposed by Miles and Huberman (1984). First, a computer search in the ABI/Inform Global and Springer Link was conducted to collect relevant studies. We applied two search strings in order to collect relevant literature.¹ The computer search was

used to find a combination of CSP (or a synonym) and CFP (or a synonym). Second, the reference lists of the found articles were scanned manually for studies that investigated the relationship between CSP and CFP in a manner that was relevant to this research. This was the basis for the back and forward searching for relevant literature.

Third, the articles from this list were judged according to the following exclusion criteria.

- A definition or measurement of CSP that does not suit the model presented in the theoretical framework.
- A definition or measurement of CFP that does not suit the model presented in the theoretical framework.
- Doctoral dissertations.
- Single cases and limited multiple case studies. Cases were excluded since they rather help at exploring a field than at providing valid results for large populations.
- Literature published before 1990. It is important that the literature included in the study be recent. Early work in the field can be used as an argument, but should not be used as empirical truth (Roman et al., 1999).

Additionally, there is a specific reason to exclude empirical research published before 1990 from this study. The Brundtland Report (The World Commission on Environment and Development, 1987) can be seen as a turning point in the attention toward CSR (cf. Cohen and Winn, 2007; Hueting, 1990; Schubert and Lang, 2005). It has brought forward the upcoming risks and problems in the entire world. In this context, the role of business was discussed in a new light. The organizational consequences of that report as well as organizational reactions and consumers' responses are not likely to enter academic research before 1990.

The studies were examined in-depth to extract factors that influence the relationship between CSP and CFP, such as moderating variables or control variables. This study defines confounding variables as variables that influence the relationship between CSP and CFP. To investigate whether extracted factors differ between studies that found a positive relation versus a negative relation versus no significant relation (type of relationship), the included

studies were subdivided based on the type of relationship found. Moreover, factors other than confounding variables were expected to influence research conclusions on the relationship between CSP and CFP, such as the definition of CSP and CFP, the number of companies that had been included, and the research design. To investigate the influence of these research characteristics on the research conclusions, these variables were also abstracted from the included studies.

To investigate the included studies, the studies were summarized in a monster matrix containing the following columns: Author(s). Title of the study. Year of publication. Design: Empirical study, theoretical study, or a case study. *N*: the number of organizations included in the study. This affects the validity of the study. Measurement of CSP: (1) social concern; (2) social action; (3) corporate reputation ratings, exact measurements of CSP: basis of choice for CSP category. Measurement of CFP: (1) market-based measurements; (2) accounting-based measurements, exact measurements of CFP: basis of choice for CFP category, the relationship CSP–CFP: the nature of the direction of the relationship: positive, negative, or no relationship at all. This is important because the aim of this research is to find factors that influence the relationship. The factors, sought in this research, might differ for the different types of the relationship. Moderating variables: variables that are believed to moderate the relationship between CSP and CFP in that particular study. Moderating variables are potential confounding variables. Control variables: variables that the investigated study controlled for. Control variables are potential confounding variables. Significant confounding variables for CSP: variables that influence the relationship between CSP and CFP or influence CSP. Significant confounding variables for CSP: variables that influence the relationship between CSP and CFP or influence CSF. Industry: many studies incorporate multiple industries. This may diffuse individual research conclusions (Griffin and Mahon, 1997), and we therefore describe them as a distinct factor. The monster matrix was ultimately reduced to a more comprehensive matrix. On the basis of this matrix, it is possible to provide an answer to the general research question.

Results

Table I is divided into three categories: studies that show (1) a positive relationship between CSP and CFP, (2) no relationship, and (3) a negative relationship. In one study, the research conclusion on the relationship between CSP and CFP was unclear. Therefore, the study conducted by Allouche and Laroche (2005) was used to determine whether there was a positive, negative, or a non-significant relationship.²

CSR pays

He et al. (2007) investigated how non-market strategy can influence a firm's performance. They found a positive relationship. They used CSP 2 and CFP 2 categories for measurement and included bridging, buffering, and adaptive capability as moderators. All these variables influenced the relationship under research and were therefore marked as confounding variables. Buffering and bridging complement each other and improve a firm's performance through adaptive capability and CSP. Buffering is defined as a firm's ability to influence and control the environment or insulate a firm from external interference. Bridging refers to a firm's ability to adapt to its environment or to meet and exceed external expectations.

Luo and Bhattacharya (2006) investigated the link between CSR and firm market value, with the belief that customer satisfaction would serve as a moderator. They found a positive relationship. They used CSP 3 and CFP 1 categories for measurement. Customer satisfaction plays a significant role in the relationship between CSP and CFP and is therefore identified as a confounding variable.

Barnett and Salomon (2006) investigated the divergent views on SRI and tested the relationship between CSP and CFP within mutual funds. They found a positive relationship. They used CSP 3 and CFP 1 categories for measurement. Because the impact of the control variables was negligible, except for in the case of global funds, only global funds were identified by us as a control variable. This means that the globality of a fund had a negative impact on CFP.

Peinado-Vara (2006) investigated the role of CSR in Latin America using two case studies. She found a

positive relationship. She used CSP 2 and CFP 2 categories for measurement. No confounding variables were found in this study.

Schnietz and Epstein (2005) investigated the financial value of CSR reputation during a crisis to see if the CSR reputation had an insulating effect on an exogenous shock that is likely to harm a firm. They found a positive relationship. They used CSP 3 and CFP 1 categories for measurement. When R&D was included as a control variable, the effect of CSP on CFP was weaker. Because R&D influenced the relationship between CSP and CFP, it has been included in this research as a confounding variable.

Goll and Rasheed (2004) investigated the moderating role of environment in the relationship between CSR and firm performance. They found a positive relationship. They used CSP 2 and CFP 2 categories for measurement and found that size had a positive effect on CFP. Therefore, size has been taken as a confounding variable in this research. Environmental dynamics and munificence both have a positive effect on the relationship between CSP and CFP and are therefore included as confounding variables in this research.

Kumar et al. (2002) investigated the consequences of social behavior on stock market value during the apartheid regime. They found a positive relationship. They used CSP 2 and CFP 1 categories for measurement. No confounding variables were found in this study.

Ruf et al. (2001) investigated the CSP–CFP link from a stakeholder perspective. They found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and found that size, industry, and prior year's sales had a significant effect on CFP. Therefore size, industry, and prior year's sales were included as confounding variables.

Carter et al. (2000) investigated the effect of environmental purchasing on firm performance. They found a positive relationship. They used CSP 2 and CFP 2 categories. No confounding variables were found in this study.

Dowell et al. (2000) investigated the relation between global environmental standards and market value. Is adhering to higher global environmental standards associated with higher market value or does it represent a non-productive use of assets and a drag on market value? They found a positive relation. They used CSP 3 and CFP 1 and 2 categories. They

TABLE I
Result of the literature analysis

Relationship	Author (Year)	N	CSP category	CFP category	Confounding variable CSP	Confounding variable CFP
Positive	He et al. (2007)	438	CSP 2	CFP 2	Buffering	Buffering, bridging, and adaptive capability
	Luo and Bhattacharya (2006)	113	CSP 3	CFP 1	Customer satisfaction	Globality of fund
	Barnett and Salomon (2006)	67	CSP 3	CFP 1		
	Peinado-Vara (2006)	2	CSP 2	CFP 2		
	Schnietz and Epstein (2005)	416	CSP 3	CFP 1	R&D	R&D
	Goll and Rasheed (2004)	62	CSP 2	CFP 2	Environmental dynamics and munificence	Size, environmental dynamics, and munificence
	Kumar et al. (2002)	87	CSP 2	CFP 1		
	Ruf et al. (2001)	488	CSP 3	CFP 2		Size, industry, and prior year's sales
	Carter et al. (2000)	437	CSP 2	CFP 2		
	Dowell et al. (2000)	89	CSP 3	CFP 1 and 2	R&D, advertising	Quality of management
	Graves and Waddock (1999)	653	CSP 3	CFP 1 and CFP 2		
	Brown (1998)	197	CSP 3	CFP 1		
	Judge and Douglas (1998)	217	CSP 2	CFP 2	Size	Size (non-significant)
	Stanwick and Stanwick (1998)	125	CSP 3	CFP 2		Pollution emission
	Russo and Fouts (1997)	243	CSP 3	CFP 2	Industry	Industry growth
	Waddock and Graves (1997)	469	CSP 3	CFP 2		Size, risk, and industry
	Preston and O'bannon (1997)	67	CSP 3	CFP 2		
	Hart and Ahuja (1996)	127	CSP 2	CFP 1 and 2		Industry, capital structure
	Klassen and McLaughlin (1996)	82	CSP 2	CFP 1		
	Pava and Krausz (1996)	53	CSP 3	CFP 1 and CFP 2	Investment intensity, size	
	Blacconiere and Patten (1994)	47	CSP 1	CFP 1		
	Herremans et al. (1993)	96	CSP 3	CFP 2	Risk, industry	
	Freedman and Stagliano (1991)	27	CSP 1	CFP 1		

TABLE I
continued

Relationship	Author (Year)	N	CSP category	CFP category	Confounding variable CSP	Confounding variable CFP
Non-significant	Van de Velde et al. (2005)	315	CSP 3	CFP 1		
	Seifert et al. (2004)	225	CSP 2	CFP 1	Ownership concentration, differentiation, industry	Size
	Seifert et al. (2003)	135	CSP 2	CFP 1 and CFP 2	Size	
	Moore (2001)	8	CSP 3	CFP 2	Size	
	McWilliams and Siegel (2000)	524	CSP 3	CFP 2	R&D	R&D
	Balabanis et al. (1998)	56	CSP 3	CFP 1 and CFP 2	Size	Size
	Guerard (1997)	1300	CSP 3	CFP 1		
	Hamilton et al. (1993)	400	CSP 3	CFP 1		
	Arlow and Ackelsberg (1991)	146	CSP 2	CFP 2	Size	Size
	Brammer et al. (2006)	451	CSP 3	CFP 1	Industry	Industry
Negative	Boyle et al. (1997)	32	CSP 2	CFP 1		

found a positive effect of R&D and the level of advertising on CSP, and therefore these are included as confounding variables for CSP.

Graves and Waddock (1999) investigated the link between CSP and CFP while controlling for quality of management. They found a positive relationship. They used CSP 3 and CFP 1 and 2 categories for measurement. Quality of management had a positive effect on CFP. Quality of management is therefore seen as a confounding variable in this research.

Brown (1998) investigated the relationship between corporate reputation for social performance and stock market returns. He found a positive relationship. He used CSP 3 and CFP 1 categories for measurement. No confounding variables were found in this study.

Judge and Douglas (1998) investigated the relationship between the level of integration of environmental issues into the strategic planning process and the firm's financial performance. They found a positive relation between CSP 2 and CFP 2. Firm size was integrated as a confounding variable for CFP, but appeared to have no significant effect.

Stanwick and Stanwick (1998) investigated the relationship between CSP and three organizational variables: organizational size, financial performance, and environmental performance. They found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and found that size had a positive effect on CSP, and pollution emission a negative effect on CFP. We therefore included size and pollution emission as confounding variables in this research.

Russo and Fouts (1997) investigated the relation between environmental performance and economic performance. Industry growth is believed to moderate the relation. They found a positive relation. They used CSP 2 and CFP 2 categories for measurement. The relationship between CSP and CFP is moderated by industry growth, because the connection is stronger in higher growth industries.

Waddock and Graves (1997) investigated the relationship between CSP and CFP and the direction of that causation. They found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and found that it is important to control for industry. Industry is thus a confounding variable on the relationship. Size and risk both had a negative impact on CFP and were therefore also used as confounding variables in this research.

Preston and O'Bannon (1997) investigated the relationship between indicators of corporate social and financial performance. They found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and found no confounding variables.

Hart and Ahuja (1996) investigated relation between emission reduction and firm performance. They found a positive relation. They used CSP 2 and CFP 1 and 2 categories: firms with a higher level of emission reduction and pollution prevention will have better firm performance through different industries. This relationship is especially true for companies with high emission levels. They found industry and capital structure as possible confounding variables for CFP.

Klassen and McLaughlin (1996) investigated the relationship between strong environmental management and improved perceived future financial performance. They found a positive relation between CSP 2 and CFP 1: significant positive abnormal stock returns were documented following positive environmental events, highlighting the perceived value of strong environmental performance.

Pava and Krausz (1996) investigated the relationship between CSR and financial performance. They found a positive relationship. They used CSP 3 and CFP 1 and 2 categories for measurement. Because the investment intensity and the size were positively related to socially responsible firms' investment, intensity and size were included as confounding variables in this research.

Blaconiere and Patten (1994) investigated the relation between the disaster at Union Carbide and the industry-wide effects on the stock return. It measures the effect of social disclosure of the included companies on their stock return. They found a positive relationship. They used CSP 1 and CFP 2 categories for measurement.

Herremans et al. (1993) investigated the relationship between CSR reputation and economic performance. They found a positive relationship. They used CSP 3 and CFP 2 categories for measurement and found that industry affected CSP. Risk was also related to CSP; firms with high CSR reputation have low risk. Therefore, industry and risk were seen as confounding variables in this research.

Freedman and Stagliano (1991) investigated the relationship between mandatory disclosures and the variability in response from investors. They found a

positive relation between CSP 1 and CFP 1 categories. The share price of firms that properly disclosed information on the decision of the Supreme Court inclined relatively to firms that did not. No confounding variables were found.

CSR does not matter

Van de Velde et al. (2005) investigated the profitability of socially responsible investment (SRI) strategies. They found a positive, non-significant relationship. They used CSP 3 and CFP 1 categories for measurements. No confounding variables in this study were found.

Seifert et al. (2004) investigated the relationship between the availability of slack resources and corporate philanthropy and investigated the relationship between corporate philanthropy and the profitability of the firm. With respect to the latter, they found no significant evidence. They used CSP 2 and CFP 1 categories for measurement. The study used many control variables, such as ownership concentration, differentiation, and industry. They had a significant effect on CSP. Company size and year had a significant effect on CFP. Ownership concentration was defined as the number of large-block owners. Differentiation was defined as a differentiation strategy in the industry sector. Average philanthropy was simplified as industry because it depends on the industry and thus measures the same. Asset size measured the size of the company and year was the year of measurement. All these variables were included as confounding variables, except for year, because it is of limited value for answering our present research question.

Seifert et al. (2003) investigated the link between corporate philanthropy and financial performance. They found no significant relationship. They used CSP 2 and CFP 1 and 2 categories for measurement and found that size had a weak positive effect on corporate philanthropy, which was categorized as CSP 2. Size was therefore taken as a confounding variable in this research.

Moore (2001) investigated the link between CSP and CFP in the UK supermarket industry. He found no significant relationship. He used CSP 3 and CFP 2 categories for measurement and found a positive relationship between CSP and firms size (average

turnover). Therefore, size was included as a confounding variable.

McWilliams and Siegel (2000) investigated the correlation between CSR and R&D and estimated the impact of CSR on financial performance. They found no relationship after the study controlled for R&D and therefore no significant relationship was stated. They used CSP 3 and CFP 2 categories for measurement. R&D was seen as a confounding variable in this research.

Balabanis et al. (1998) investigated the claim that social responsibility and economic performance are linked and tested this relationship within a UK context. They found no significant relationship. They used CSP 3 and CFP 1 and 2 categories for measurement. Size had a significant effect on both CSP and CFP as a control variable and was therefore included as a confounding variable.

Guerard (1997) investigated the relation how socially screened equities relate to the unscreened equities in average return. No significant relation was found. CSP and CFP 1 categories were used and there were no confounding variables.

Hamilton et al. (1993) investigated the relation between the returns of socially responsible portfolios and conventional portfolios. They found no significant relationship: social responsibility factors have no effects on expected stock return or companies' cost of capital. CSP 3 and CFP 1 categories are used.

Arlow and Ackelsberg (1991) investigated social responsibility within small firms. One part of their research investigated the link between social responsibility and financial performance. They found no relationship. They used CSP 2 and CFP 2 categories for measurement. Because they only investigated small firms, size was seen as a confounding variable.

CSR costs

Brammer et al. (2006) investigated the relationship between CSP and CFP using stock returns. They found a negative relationship. They used CSP 3 and CFP 1 categories for measurement and used industry as a control variable. Because the differences between industries were significant, industry was identified as a confounding variable.

Boyle et al. (1997) investigated the relation between the perception of stock holders of the effects of CSR on firm value. No confounding variables are used in this study. They used CSP 2 and CFP 1 categories and found a negative relationship.

Different categories and confounding variables

Of the included studies 23 found a significant positive relationship (68%), six studies found no significant relationship (26%), and two studies found a significant negative relationship (6%) between CSP and CFP. Table 1 shows that 12 of the 34 included studies used a CSP 2 category (35%) for measuring CSP, and 20 used a CSP 3 category (59). Thus, 12 of the included studies used measurements of corporate actions philanthropy, social programs, and pollution control. Questionnaires given to employees or managers were included here. Twenty studies used corporate reputation ratings such as KLD and Fortune for measuring. The CSP 1 category, the extent of social disclosure about matters of social concern, was only used in two of the included studies (6%). For measuring CFP, both the first and the second category, market-based and accounting-based measurements, were used in 14 studies (41%). Six studies did not make a choice between the two categories and used both (18%).

In 11 of the included studies, size, measured in different ways, was found to be a confounding variable. Industry affected the research outcome in six studies, and R&D and risk affected results in three studies. Other confounding variables that were only mentioned once were: Buffering, Bridging, Adaptive capability, Customer satisfaction, Globality of fund, Environmental dynamics, Environmental munificence, Prior year's sales, Quality of management, Pollution emission, Investment intensity, Ownership concentration, Differentiation.

Discussion

This research shows that the majority of the included studies found a positive relationship between CSP and CFP (68%), while 26% show no significant relationship between CSP and CFP. Only 6% (two studies) show a negative relationship between CSP

and CFP. Additionally, the data set of one of the two studies showing a negative relationship is very thin. Moreover, several studies that found no significant relationship did actually find a positive relationship, but that relationship was due to methodological issues not significant. This supports the view that literature on the relationship between CSP and CFP presents an overly negative picture of the link between CSP and CFP. Many of the studies that were described in this overview mentioned the inconclusiveness of past research results and pointed toward the inconsistency within the field. This study firmly opposes this view and proposes that the effect of CSP on CFP is solely a positive one.

Despite the fact that this overview included studies that covered a wide array of evidence, the overall results predominantly point toward a positive link between CSP and CFP. With respect to the effect of the factors that were found, this result is rather disappointing. One of the goals of this review was to investigate factors that were expected to influence the relationship between CSP and CFP by comparing studies that found a positive, a negative, or no relationship between CSP and CFP in order to see if there is consistency in how these influencing factors are seen with respect to the relationship between CSP and CFP. However, because the majority of the studies found a positive relationship, we were not able to make this comparison in this review. This is also due to the small number of studies that were included in this research.

Another goal of this research was to investigate several factors that influence the relationship between CSP and CFP in order to get a more in-depth understanding of this relationship. Firm size can be of importance for several reasons, for example, in the case of corporate philanthropy. This review showed that the most important confounding factor is indeed size. Although the measurement of firm size is not equal in all included studies, about half of the included studies found a significant effect of size on the relationship between CSP. However, the effect of firm size on the relationship between CSP and CFP is still unclear. Some studies explained the effect as being one where firm size affects CSP, whereas other studies suggested that firm size affected CFP or the relationship as a whole. According to Wood and Jones (1995), large firms give more in dollars than small firms. However, Orlitzky (2001) found no empirical sup-

port to confirm that firm size does confound the relationship between CSP and CFP. So, there is no reason to assume that large firms are more likely to engage in socially responsible actions or should perform better in a financial sense. This review does however provide evidence that firm size is influencing the relation between CSP and CFP in some way. Consequently, firm size should be taken into account when performing future research.

Industry has repeatedly been described as a confounding variable in the relationship between CSP and CFP. Industries differ in the way they cope with their environment. They operate in different contexts and have to deal with distinct social, environmental, and financial concerns (Chand, 2006). Research that covers many industries therefore tends to mask effects of specific industries (Griffin and Mahon, 1997). Its influence is less powerful than that of firm size, but it appears to influence the relationship in a substantial amount of studies. This is in accordance with Chand (2006), who suggests that research on the link between CSP and CFP should focus on a single industry. Such a procedure will increase validity and accuracy. Chand argues that different industries operate in different contexts and face different social and environmental concerns. Moreover, he suggests that broad studies trivialize the wide differences in stakeholders that exist across industries. This research confirms Chand's view. Several of the other confounding variables found appear to have an influence on the relationship between CSP and CFP, as well.

Several scholars have argued that there is little consistency within the field of CSR regarding the methodology that should be used to investigate the link between CSP and CFP and regarding the conceptualization of CSP and CFP. This review confirms this argument. Even when we divided CSP into three categories and CFP into two categories, we were not able to uncover a consistency in the way the included studies measured CSP and CFP or their relationship. This is a major problem within the field as it limits the generalizability of study results. This restrains the practical value of research dealing with the relationship between CSP and CFP.

We made the remarkable finding while reviewing the literature on CSP and CFP that many of the studies that we included – the studies that were used for theory, as well as the included studies – based

their theoretical framework and findings on literature and material that is dated. Even the comparison with two relatively young meta-analyses (Margolis and Walsh, 2003; Orlitzky et al., 2003) shows that this present analysis is much less ambiguous than earlier analyses. One reason for the quite univocal results of our study is the fact that we only included material published after 1990, whereas Margolis and Walsh (2003) included studies published between 1972 and 2002, and Orlitzky et al. (2003) used studies from 1970 until 1997. Above, we have already mentioned the importance of the Brundtland Report and the consequences that can be observed since 1990. In the same period, the efforts of classical organizations, consultancies, and rating agencies as well as the publications of consumer organizations have provided a greater transparency as compared to former periods. The continuing institutionalization and standardization in the CSR context allow for a greater comparability of CSP. Nowadays, consumers are able to be very well-informed about the sustainability scores of organizations that produce consumer products and take their consumption and investment decisions according to these scores. Furthermore, we have only included studies that relate CSP to the overall sustainability achievement of an organization rather than relating it to single actions or decisions of organizations. For instance, we have not included those studies that relate relocation decisions and divestment in totalitarian countries (cf. Meznar et al., 1994) since such decisions mirror single events rather than the overall CSP.

Herremans et al. (1993) argued that it is difficult to generalize the results of a study to other time periods. Results of studies that incorporate social issues must be placed in the proper perspective. This holds also for the statement by Friedman. The reason for this is manifold: to begin with, the entire discussion concerning CSR has progressed to a great extent since the early 1970s. We know now that CSR is not only much more but also something different than simple charity – which is what Friedman refers to. The second reason is that the conditions for organizational actions are not only defined by the legal setting, but are also heavily influenced by the society that does or does not ascribe legitimacy (Gössling, 2003; Suchman, 1995). We do not claim that it is always profitable for every

organization to act responsibly. Neither do we believe that our evidence is sufficient to state that organizations must be responsible in order to be able to make profit. However, if Friedman had insight in the CFP consequences of CSR, it is likely that he will support the perspective that responsible organizations could be profitable. Thus, CSR is not theft from the pocket of the shareholders. Or, as Vogel (2005) puts it: “Were Friedman now to revisit this subject, he would find much less to concern him.”

Limitation and future research directions

It is important to discuss the relationship between CSP and CFP with data relevant to current society. Therefore, only studies that have been published from 1990 onward were included in this review. With the use of this exclusion criterion, this review is distinct from previous reviews, which included both recent and dated studies (Allouche and Larocche, 2005; De Bakker et al., 2005; Roman et al., 1999; Wu, 2006). However, despite the fact that only recently published studies were included, a lot of evidence within this review is based on theories developed before this period. For example, although the study conducted by Pava and Krausz was published in 1996 and was included in our review, the evidence they present for the relationship between CSP and CFP was dated and contains only one study published after 1990. Pava and Krausz also recognized the need to update earlier studies and were aware that they had used dated material. A major limitation that results from the exclusion of studies that were published before 1990 is that only a small number of studies have been included within this review. Goll and Rasheed argue that the most recent developments in the field of CSR suggest a more positive relationship between CSR and firm performance than does earlier research. The use of a small number of studies decreases the validity and generalizability of the results.

Another limitation of this research is the inconsistency in methodology and research design in the studies that are included. This makes it difficult to compare the research conclusions of the included studies and extract the factors that influence the relationship. Other researchers have also acknowledged this inconsistency in methodology (Ruf et al., 2001;

Waddock and Graves, 1997). In an attempt to minimize this problem, we developed categorizations of CSP and CFP on the basis of theory. These categories were expected to be helpful by breaking down the complex concepts of CSP and CFP. The categories of CSP and CFP make it possible for future research to focus on parts of CSP and parts of CFP and to investigate the link between them. This could provide valuable knowledge about the link between CSP and CFP and aid in attaining a more in-depth view of the relationship. Many of the included studies used complex models to isolate the effect of CSP on CSR. Because it has been shown that it is very difficult to isolate this effect, all results based on this apparent isolation should be considered with caution. Balabanis et al. (1998) have argued that the validity of independent expert ratings rests on the expertise of the assessors and the accuracy of the information available to them.

This study investigated the factors that may influence the relationship between CSP and CFP. It investigated control and moderating variables. Variables that had a significant influence on the relationship between CSP and CFP were considered confounding variables. Caution here is advised. Control variables are not able to isolate or identify individual factors that influence the relationship between CSP and CFP. Despite the significant effects of the control variables on the relationship between CSP and CFP, the direction or the strength of this effect remains unclear and should be investigated in further research.

This review shows that the relationship between CSP and CFP is primarily a positive one. This finding is in accordance with previous reviews (De Bakker et al., 2005; Roman et al., 1999; Allouche and Laroche, 2005; Margolis and Walsh, 2003; Orlitzky et al., 2003; Wu, 2006), which also found a predominantly positive relationship between CSP and CFP. Although the introduction pointed out that the field of CSR and CSP is constantly changing and affected by the dynamics of society, future research should focus more on circumstances under which the relationship between CSP and CFP exists, rather than focusing on the direction and on whether the relationship is positive, negative, or non-existent. More in-depth knowledge about the nature of the relationship between CSP and CFP and about factors that influence this relationship will not only

be of scientific value and relevance, but will also contribute to the practice of CSR and CSP in management of organizations.

In order to continue to have value for management practice and for the improvement of the business world, future studies should focus on segments of groups of firms that practice CSP. In this respect, research in different industries may be helpful. Research has shown that the level of CSP depends on industry and on factors that are highly influenced by industry, such as R&D and size (Waddock and Graves, 1997). If research would focus on groups of firms that are selected on the basis of factors that have been found in this review and, thus, on factors that influence the relationship between CSP and CFP, it might be possible to peel open the relationship and pinpoint several aspects of CSP and CFP. The confounding variables can thus be used in future research by incorporating them in the sample strategy. When more knowledge is gathered about the different parts of CSP and their influence on different parts of CFP, it may be possible to draw substantial conclusions about the nature of the relationship between CSP and CFP.

Conclusion

The original research question stated in this review was: *What is the relationship between Corporate Social Performance and Corporate Financial Performance and which factors influence this relationship?* This review showed that the majority of studies looking at the relationship between CSP and CFP found a positive relationship.

Furthermore, we identified several factors that influence the relation between CSP and CFP. The most important factor found in the studies included is the size of the unit of analysis. In about half of the included studies, size was identified as a confounding variable. In addition, industry, R&D, and risk appeared to be important factors that influence the relationship between CSP and CFP. Remaining factors that were found in this review were buffering, bridging, adaptive capability, customer satisfaction, globality of fund, environmental dynamics, environmental munificence, prior's year sale, quality of management, pollution emission, investment intensity, ownership concentration, and differentiation.

It remains unclear whether these factors might influence the relationship between CSP and CFP as a whole or through CSP or CFP. In accordance with previous research, this review revealed that there is much inconsistency in the way research measures the relationship between CSP and CFP. There is no standard definition of CSP that is properly measurable and, although CFP is a much more straightforward measure, there is still much inconsistency concerning how this concept should be treated in research. The definitions of CSP and CFP, the methodology used for measuring CSP and CFP, and the testing of the relationship between them can therefore also be named as factors that influence the relationship between CSP and CFP.

Notes

¹ The search string for CSP was “corporate social performance, corporate social responsibility, social responsibility, social concern, social action, and social reputation.” The search string for CFP was “economic performance, corporate financial performance, profitability, and economic success.”

² The different categories are arranged by year of publication. The first column describes the relationship between CSP and CFP, the second column describes the author(s) and the year of publication. The N column describes the sample size. Columns 4 and 5 describe the different categories for CSP and CFP equal to the definitions that have been described in the theoretical framework. Columns 6 and 7 describe the confounding variables that are found within the included studies and that significantly influenced CSP, CFP, or the relationship between CSP and CFP.

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