

making the business cases

THE CENTER FOR CORPORATE CITIZENSHIP

AT BOSTON COLLEGE



Determining the Value of
Corporate Community Involvement



THE CENTER
FOR CORPORATE
CITIZENSHIP
AT BOSTON COLLEGE

AUTHORS

Steven A. Rochlin, Director, Research and Policy Development

Brenda Christoffer, Graduate Intern

The authors wish to acknowledge the following individuals whose support and research provided invaluable contributions to this report.

Our thanks to: Dale Burr, Michael Stevenson, Susan Thomas and Russell MacTough.

© 2000 The Center for Corporate Citizenship at Boston College. All rights reserved. This publication was prepared by The Center for Corporate Citizenship at Boston College and is not to be reprinted without permission of The Center.

Table of Contents

FOREWORD	iii
PREFACE	1
BACKGROUND	4
WHAT IS THE BUSINESS CASE?	8
THE STATE OF RESEARCH ON THE BUSINESS CASE	12
EVIDENCE FOR THE BUSINESS CASE	13
CORPORATE FINANCIAL PERFORMANCE	13
SOCIAL INVESTMENT	15
PRESERVING THE LICENSE TO OPERATE	17
CONSUMER BEHAVIOR	20
HUMAN RESOURCES	23
INNOVATION IN MARKET AND PRODUCT DEVELOPMENT	27
IMPLICATIONS FOR RESEARCH INTO THE BUSINESS CASE	30
IMPLICATIONS FOR CORPORATE SOCIAL PERFORMANCE	31
A FINAL WORD	32
BIBLIOGRAPHY	33

Foreword

As director of The Center for Corporate Citizenship at Boston College, I have witnessed firsthand the sea change in perspective on the role of corporate community involvement. In recent years there has been a call for corporations to intensify their commitment and efforts to promote social welfare. In addition, demands are heightening for business to become more reflective and sensitive to the influences—both positive and negative—they have on our communities and society overall.

All of this is occurring in an era of unparalleled economic expansion. New technologies and innovations are fundamentally changing the way business gets done and the way societies live. Globalization and the speed of change are creating a competitive environment which forces business to look more inward, and to pursue a strategy of “grow or die.” In this environment, it is not the “stakeholder” who captures the mind of corporate leaders, but the shareholder. The dominance of the shareholder model has left out critical stakeholders from corporate decision-making. As expectations rise for companies to become productively involved in communities near and far, the tension between shareholders and stakeholders boils ever hotter.

Out of this tension has developed a new philosophy, which claims that this tension need not exist. An approach of stakeholder management, it is argued, makes good business sense. Factor stakeholders into your management, and you will find increased—not diminished—returns.

This report attempts to catalog and define the existing evidence that supports this view, particularly along the dimension of corporate community involvement (CCI). A case is mounting that effective CCI does indeed add value to the business by supporting customer acquisition and marketing; human resource strategies; preserving the “license” to operate; building reputation; and supporting innovations in market and

product development. The existing evidence is still at an early stage of development, but there is enough out there to make a compelling case that companies should invest more time, energy and resources toward their social performance.

That said, the future for CCI lies not in its ability to help sell more products, recruit more employees, or win environmental permits. Rather, the future of CCI lies in its ability to connect the strengths of businesses and communities together to build healthy, sustainable communities in which to live, work and do business.

Bradley K. Googins, Ph.D.

Executive Director

The Center for Corporate Citizenship at Boston College

Preface

In recent years, globalization, consolidation and expanding corporate influence have led to increasing calls for corporate social responsibility. Along with those calls have come claims that corporate community involvement (CCI) is “good business” in that it supports and improves core business functions. This report reviews recent research on the business benefits of CCI. It concludes that while more research is needed, there is much evidence that CCI can benefit companies.

WHAT IS CCI?

For the purposes of this report, corporate community involvement is defined as:

The state of relations between the company and the communities in which it has a presence or impact. It encompasses programs that advance the interests of both the company and its communities, such as donations, employee volunteerism and community partnerships. It involves the impact of the operational activities of the company on its communities as well as programs established to develop relationships with groups and organizations in communities.

(Burke, 1999)

CCI is sometimes used interchangeably with “corporate social performance” (CSP) which can have a variety of meanings but is defined by Waddock and Graves (1998) as the “day-to-day operational treatment by a company of its numerous stakeholders.” By this definition, CSP encompasses CCI. Because research

exploring the value-added of CSP has bearing on questions around the benefits of corporate community involvement, we use, at certain points, the terms simultaneously, as “CCI/CSP.”

OVERALL FINDINGS

Corporate community involvement adds value to the firm

The studies surveyed generally support the belief that CCI adds value to the firm by enhancing:

- The corporate license or freedom to operate
- Customer relations and attraction/marketing
- Human resources
- Innovation in market and product development
- Reputational capital
- Financial performance
- Social investment

That said, research that attempts to test these propositions suffers from a number of shortcomings. There is, for example, no commonly accepted definition of “corporate social performance,” and data sources measuring CSP possess significant limitations. It has been very difficult to establish a clear causal relationship between CSP and business benefits, and it is challenging to set a dollar value for the intangible assets that CSP often creates.

FINDINGS BY CATEGORY

Research into the business benefits of CCI or CSP can be roughly divided into six categories: (1) corporate financial performance; (2) social investment;

(3) preserving the license to operate; (4) consumer behavior; (5) human resources; and (6) innovation in market and product development.

Corporate financial performance

- Current evidence suggests that corporate social performance and corporate financial performance are positively linked, that they can influence one another, and that both directions of causality are statistically significant and positive.
- Management increasingly expresses the view that CCI can lead to positive financial returns.
- There is a need for further research and for the standardization of measures for community involvement and financial performance factors.

Social investment

- There appear to be no special financial losses or gains from choosing to invest in socially screened funds vs. traditional funds.
- CSP/CCI does not harm shareholder value, and in some cases, adds to it.
- The number of socially screened funds are growing at a rapid rate.

Preserving the license to operate

- Key stakeholders increasingly expect companies to be responsible corporate citizens.
- Many individuals believe corporations are not doing enough for communities.
- Awareness of corporate community involvement can positively influence different stakeholders' perceptions of the company's reputation.

Consumer behavior

- Consumers support companies they believe are good corporate citizens.
- Corporate community involvement increases brand differentiation and provides competitive advantage in marketing products and services.
- To generate value, a company must ensure that key audiences are aware of its efforts to be a good corporate citizen.

Human resources

- Corporate social performance aids recruitment and retention.
- Corporate community involvement programs—particularly those in which employees have the opportunity to volunteer—can aid employee skill development.
- For CSP or CCI to further recruitment, retention or skill development, employees must be aware of a company's efforts in these areas.

Innovation in market and product development

- Corporate community involvement is increasingly viewed as a tool that can help to develop new markets and suppliers, and in the creative use or testing of new products.
- To date, few studies have measured the impact of CCI programs or the effectiveness of CCI strategies and management practices.

CONCLUSION

There is compelling evidence that CCI/CSP supports the corporate bottom line. In coming years, pressure on business to pay greater attention to its role and performance in society is likely to increase. Business leaders and others should continue to support and demand research into the outcomes and impact of CCI/CSP as it relates to business and its key communities.

ABOUT THE CENTER FOR CORPORATE CITIZENSHIP AT BOSTON COLLEGE

The Center for Corporate Citizenship provides leadership in establishing corporate citizenship as a business essential, so all companies act as economic and social assets to the communities they impact by integrating social interests with other core business objectives. The Center is the leading organization helping corporations define their role in the community.

Part of Boston College's Carroll School of Management, The Center offers:

- research and development on corporate citizenship
- publications on corporate citizenship that include newsletters, research reports, and white papers
- executive education programs in corporate citizenship, including on-site and custom programs and a Certificate program in corporate community relations
- convenings to bring together the many communities invested in corporate citizenship, including the annual International Corporate Citizenship Conference, workshops, roundtables, and regional meetings

- consulting to help companies develop and implement strategic citizenship plans
- a corporate membership program
- a website that provides an online meeting place for the corporate citizenship community

The Center for Corporate Citizenship at Boston College
Carroll School of Management
55 Lee Road
Chestnut Hill, MA 02467-3942
Tel. 617.552.8668
fax 617.552.8499
email: ccc@bc.edu
www.bc.edu/corporatecitizenship

Background

A great debate is taking place regarding the appropriate role of business in society. Corporate executives, scholars, opinion-leaders and policy-makers are questioning the obligations that businesses and communities possess for one another. A compelling new argument contends that the traditional view of corporate involvement in social issues—that of being a soft “add-on” which may distract from core functions—is outmoded. Today, observers from a variety of sectors propose that not only is corporate citizenship consistent with good business practice, it is in fact a business essential.

Supporters and detractors of this new vision have called for evidence demonstrating that corporate social performance will bring financial returns. A number of studies addressing this question have been conducted over the last 25 years. Their scope has ranged widely—from broad investigations of multiple dimensions of corporate social performance, to highly particular studies on a single issue, event or company. At this point, neither side can definitively state whether or not social performance creates value. Nevertheless, compelling findings do exist to help corporate managers and interested observers grasp how corporate social performance can enhance business.

This report reviews a sample of recent studies—by academics, consulting firms and independent “think-tanks”—that attempt to determine the benefits of corporate social performance. We have focused our review on recent studies (primarily those conducted since 1994) because these studies build on the methodologies and findings of their predecessors and use more

sophisticated data sets and methodological approaches.

Our findings demonstrate an emerging foundation of evidence supporting “the business case” for corporate citizenship.

A BRIEF WORD ON TERMINOLOGY

Many terms are used to describe companies’ relationships with society. Those currently in vogue include: corporate citizenship, corporate social performance, corporate social responsibility, corporate social responsiveness, business in society, business ethics, stakeholder management, community relations, community involvement, corporate community investment, corporate community partnerships, external relations and public affairs. While many of these terms are used interchangeably, they have different meanings.

Unfortunately, most current research exploring the business case for corporate community involvement (CCI) fails to set clear boundaries for the various terms. As a center focused on corporate community involvement, our principal interest is in investigating whether businesses’ investments in building relationships with communities make a difference, positively or negatively, for the bottom line. For this report we have investigated two strands of research. One is more specific to corporate community involvement as it is defined by Edmund Burke, founder and director emeritus of The Center for Corporate Citizenship at Boston College (see the definition provided on page 1).

The other strand of research is comprised of studies on corporate social performance—defined by business

SOCIAL AND ECONOMIC DRIVERS OF CHANGE

A variety of social and economic trends are changing expectations about the relationship of business to society:

- Increasing size and influence of companies. According to the Worldwatch Institute, the 500 top companies in the world control 70 percent of world trade and account for 30 percent of world GDP. Business is becoming an unequalled force in certain societies.
- Global retrenchment of government. As governments reduce budgets devoted to social services and problem solving, businesses are increasingly asked to fill the breach.
- Increased competition. Technological advances in production, reduced time-to-market, increased global competitors, the overall speed of change and the proliferation of new businesses have created fierce competition. In this environment, businesses are under pressure to create value along every dimension of operations. CSP is no exception.
- Increased globalization. Businesses are adapting to worldwide competition and to cultures with distinct values, issues and environments. Many businesses are reducing their presence in their home communities and increasing their profiles overseas. Globalization is exposing companies to new sets of stakeholders.
- “Informatization.” Advances in the Internet allow for almost immediate access to information on CSP and other business issues.
- Increased mergers and acquisitions. As companies combine and grow, they may become more isolated from communities and customers. However, because they control more resources, these large companies become magnets for attention.
- Democratization. Global democratic movements are calling for greater accountability and transparency from corporations. This is spurring a “social reporting” movement in some countries.
- The “war for talent.” A shift in perspective now defines “human capital” as an asset of equal (if not greater) value than “physical capital.” Given current and projected labor shortages in certain fields, attracting and retaining top-quality applicants is becoming increasingly important for organizational success. CSP is viewed as an important dimension in recruiting and retaining the workforce of the future.
- Increased media attention on CSP. Increased media coverage of CSP is raising public awareness and expectations.
- The rise of grassroots and special interest activism. Cheaper technologies (e.g. the Internet), more experience and greater management sophistication have heightened the ability of grassroots organizations to influence corporations.
- Commoditization. Increased competition creates a dynamic where more goods and services become “commoditized.” Differentiation, in part through CSP, becomes a more immediate basis for competitive advantage.
- Measurement of “intangibles.” So far, most companies have not made commitments to measure the impact of their CCI. However, tools such as social audits and balanced scorecards allow more companies to quantify the dimensions of their social performance.

As a result of these trends, societal stakeholders are playing an increasingly prominent role in the life of corporations. It is likely that companies will need to devote greater attention to managing their relationships with societal stakeholders.

(sources: Burke, 1999; Daviss, 1999; Fombrun, 1998; Googins, 1997; Rochlin, 1997; Wilson et al, 1998)

STANDARDS OF EXCELLENCE IN CORPORATE COMMUNITY INVOLVEMENT

The Center for Corporate Citizenship at Boston College has developed the Standards of Excellence in Corporate Community Involvement to help guide companies in the design and management of a strategic approach to community involvement. The seven management standards are:

Standard I: Leadership

Senior executives demonstrate support, commitment and participation in community involvement efforts.

Standard II: Issues Management

The company identifies and monitors issues important to its operations and reputation.

Standard III: Relationship Building

Company management recognizes that building and maintaining relationships of trust with the community is a critical component of company strategy and operations.

Standard IV: Strategy

The company develops and implements a strategic plan for community programs and responses that is based on mutual issues, goals and concerns of the company and the community.

Standard V: Accountability

All levels of the organization have specific roles and responsibilities for meeting community involvement objectives.

Standard VI: Infrastructure

The company incorporates systems and policies to support, communicate and institutionalize community involvement objectives.

Standard VII: Measurement

The company establishes an ongoing process for evaluating community involvement strategies, activities and programs, and their impact on the company and the community.

scholars Sandra Waddock and Sam Graves as the “day-to-day operational treatment by a company of its numerous stakeholders” (1998)—that devote attention to dimensions of CCI.

For the purposes of this report, and in order to link to the broad scope and focus of current research, we use the terms CSP and CCI interchangeably.

PRESERVING THE LICENSE TO OPERATE

In the U.S. and abroad, business faces many community challenges to the corporate license or “freedom to operate.”

In the U.S.:

- Grassroots mobilization spurred the development of an immense environmental regulatory infrastructure and the Community Reinvestment Act.
- Community action stopped Disney from opening an “American History” theme park in Virginia.
- Activists stalled Columbia/HCA's hospital acquisition strategy.

In emerging markets:

- Levi Strauss found its unit labor costs in the Philippines were the highest of its global operations due to health-related absenteeism.
- The Venezuelan chemical company Pecquiven found its industrial water lines tapped out due to siphoning by impoverished local residents.

On the Internet:

- “Cyber-communities” can organize boycotts of companies and industries they deem insensitive to certain issues.
- Environmental groups are mobilizing local communities to protest manufacturing sites with high inventories of toxic chemicals.
- A vastly expanded network combined with the geographical presence of stakeholders can affect a company's operations.

In coming years, it will be important for companies to find ways to prevent or reduce the cost of challenges to their projects and operations. By developing a presence as corporate citizens through positive actions in communities and society, businesses can preserve and enhance their license to operate.

What is the Business Case?

For most of the twentieth century, there has been a debate over the most appropriate role for business in society. On one side there is the well-known view espoused by Milton Friedman that a company's foremost obligation is to its shareholders. A competing view, championed by "lean and green" firms like Ben & Jerry's Homemade, argues that business must be a force for positive social change.

Starting with research in the 1970s, an alternative perspective has begun to form that contends that the two views are complementary. In 1985, for instance, business scholars Solomon and Hanson suggested that a corporation's social performance "may, in fact, be 'good

business.'" This perspective argues that while a company has special obligations to its owners, it both exists and operates within a web of stakeholders.

Stakeholders are defined as those groups, entities, institutions or individuals that can affect or are affected by a company's operations. Categories of corporate stakeholders may include:

- Shareholders/owners
- Customers
- Employees
- Suppliers
- Communities
- Environmental interests

CCI AND MARKET DEVELOPMENT

In a sense, the relationship between CCI and customer recruitment and marketing has been around for some time. Many industries have used the relationships established from business involvement in civic affairs to spill over into new client and customer development. Recently, this tactic has become more formally entrenched in business operations, starting with American Express' landmark cause-related marketing campaign supporting the Statue of Liberty through the "Charge Against Hunger." Companies have expanded this technique, creating cause-branding programs (such as the Ronald McDonald House) that link the corporation in an inspiring way to an important social issue. Companies are using CCI to aid in relationship marketing as well. CCI programs connect a company and its employees to potential customers in ways more profound than transactional. CCI programs are a way to change attitudes and relationships among a company and its potential or existing customers. One company using this approach is EDS. By inviting potential and current clients to participate in volunteer efforts and core projects in technology and education, EDS shows itself in a new light. The Community Affairs department has received numerous testimonials that these programs are the "best business development tool" the company has.

All of these stakeholders influence the overall success of a business. As David Baron of the Stanford Business School writes:

For many companies, market success depends not just on their products and services, the efficiency of their operations, their internal organization, and the organization of their supply chains, distribution channels and alliance networks. Success also depends on how effectively they deal with governments, interest groups, activists and the public. The forces these parties generate can foreclose entry into new markets, limit price increases and raise the costs of competing. They can also unlock markets, reduce regulation, handicap rivals and generate competitive advantage. These forces are manifested outside of markets but often work in conjunction with them.

(Baron, 1995)

Hence, devoting attention to stakeholders is not inconsistent with devoting attention to shareholders. This is because a firm's management of stakeholders will both directly and indirectly affect the bottom line. The business community has only recently begun to focus on this issue. But more and more, business scholars, observers and even corporate leaders express the view that to be successful, corporations must make their performance in society a strategic priority.

As Bradley Googins, Executive Director of The Center for Corporate Citizenship at Boston College, has noted, both the challenges and opportunities posed by societal stakeholders have grown more acute (Googins, 1997).

SUPPORTING HR

CCI can be an important tool in supporting employee recruitment and retention. Companies like Home Depot, Prudential and Texas Instruments testify that their reputations for corporate citizenship helped them win battles for talent.

One way companies can develop such reputations is by addressing issues of concern to employees and their communities. The management of Honeywell, for example, helped to lead a multi-stakeholder collaboration called Minnesota HEALS (Hope, Education, Law and Safety) to reduce the incidence of urban violence. As a result of the program, the company saw a rise in employee satisfaction and morale.

Companies are also using CCI as a means to leverage core professional development objectives. Charles Schwab, Federal Express, Pillsbury and Zurich Financial have all introduced "service learning" initiatives that build employee skills and competencies through company sponsored community service.

ADDING VALUE THROUGH “REPUTATIONAL CAPITAL”

Research conducted by Charles Fombrun, a leading authority on corporate reputation, reveals that CSP is a dimension critical to a firm’s overall reputation. A reputation enhanced by CSP can significantly improve a company’s ability to attract and retain investors, customers and employees.

Expectations for companies to “do well and do good” are rising on a global dimension.

THE BENEFITS OF CSP

Involvement in society can effectively and profitably support a company’s value chain. In particular, CSP and CCI support core business assets and functions such as:

- The corporate license or freedom to operate
- Customer relations and attraction/marketing
- Human resources
- Innovation in market and product development
- Reputational capital
- Financial performance
- Social investment

Edmund Burke, Center founder and director emeritus, argues that corporate social performance generates

competitive benefits in two ways: by reducing costs and by helping to differentiate, or add value to, products and services.

The table on page 11 summarizes the ways in which CCI benefits business. Ensuing sections of this report present the existing state of evidence supporting these claims.

HOW CCI BENEFITS BUSINESS

CORE ASSET OR FUNCTION	COST REDUCTION	VALUE CREATION
License to Operate	<ul style="list-style-type: none"> • Reduced project risk • Reduced risk of crisis escalation • More favorable government relations and regulatory rulings • Faster permitting and building approval • Reduced shareholder activism • Reduced risk of lawsuits • Reduced risks posed by social issues (e.g., lack of skilled workforce) • Reduced work stoppages • Easier entry into markets/operating locales • Easier exit from markets/operating locales 	<ul style="list-style-type: none"> • Increased community support for the company's operations ("bank account of goodwill")
Customer/Marketing	<ul style="list-style-type: none"> • Reduced negative consumer activism/boycotts • Positive media coverage/"free advertising" • Positive "word-of-mouth" advertising 	<ul style="list-style-type: none"> • Increased customer attraction • Increased customer retention
Human Resources	<ul style="list-style-type: none"> • Increased employee retention and morale 	<ul style="list-style-type: none"> • Enhanced professional development • Enhanced recruitment • Increased productivity • Development of diverse workforce
Reputational Capital	<ul style="list-style-type: none"> • Reduced negative media coverage • Dampened effect of crises or negative events 	<ul style="list-style-type: none"> • Increased reputational capital • Increased stakeholder trust for the company • Increased attraction of investors
Innovation/Market Development	<ul style="list-style-type: none"> • More efficient use of products and services (i.e., companies have learned from CCI programs and make improvements on products and services. For example, certain insurance companies have used their CCI experience in low-income communities to create programs that reduce property damage and insurance claims, making underwriting less risky and more profitable.) • More efficient production processes (e.g., some companies have used disputes with community and environmental groups to learn how to improve overall manufacturing efficiencies) 	<ul style="list-style-type: none"> • Enhanced knowledge of markets • Support for marketing efforts (relationship marketing) • Development of new non-traditional market opportunities • Opportunities to test new products and services • Asset diversification that mitigates risk
Corporate Financial Performance	<ul style="list-style-type: none"> • Effective management of community-based stakeholders—noted in the categories above—helps reduce operating costs 	<ul style="list-style-type: none"> • Efficient operations and the creation of new opportunities (defined in the categories above) adds to the bottom-line
Social Investing		<ul style="list-style-type: none"> • Social screens and investment funds are attracted to companies perceived as good social performers

The State of Research on the Business Case

There is rich and deepening perspective on the value that corporate social performance can potentially provide to the corporation. This conceptual work is often buttressed by compelling anecdotes. However, research designed to test the hypotheses identified by the business case remains limited. Researchers attempting to study the presumed benefits of CSP confront a number of obstacles:

- There is no common definition of “CSP.”
- Data sources measuring CSP often possess significant limitations. However, it is important to note that, as Simerly (1998) suggests, researchers cannot measure its theorized results.
- There is little data available to document CSP activities and resources at a corporate level.
- Establishing clear causal relationships between CSP and business benefits is often problematic.
- Surveys of the perceptions and attitudes of key stakeholders are often open to interpretation and are not always reliable predictors of behavior.
- It is difficult to measure or set a dollar value for “intangible” assets such as improved employee morale, positive attitudes from key stakeholders, etc.
- Because researchers' backgrounds and methods vary, comparing studies is problematic.

Unfortunately, many studies fail to ask the critical question of whether CSP creates sustainable benefits for the communities and stakeholders. This is an area of research in need of extensive development.

All taken, the studies surveyed for this report generally support the belief that CSP/CCI adds value. At worst, as noted by a recent Conference Board study, most research shows that CSP/CCI does not harm financial performance. While these results are promising, further, in-depth research is called for.

Evidence for the Business Case

Research into the business benefits of CSP can be roughly divided into six categories:

- Corporate financial performance
- Social investing
- Preserving the license to operate
- Consumer behavior
- Human Resources
- Innovation in market and product development

The report addresses each topic in turn.

CORPORATE FINANCIAL PERFORMANCE

Main Findings

Since the 1970s, business researchers have devoted significant attention to the relationship between CSP/CCI and corporate financial performance (CFP). Their studies typically examine the relationship between financial performance indicators such as return on equity, return on assets, return on sales and overall market performance. Additional studies are based on surveys of business leaders, managers and analysts. The findings of these studies show a positive correlation between CSP/CCI and CFP. In summary:

- The preponderance of studies indicates that CSP and CFP are positively linked.
- Recent research suggests that CSP and CFP can influence one another, and both directions of causality are statistically significant and positive.
- Management increasingly expresses the view that

corporate community involvement can yield increased financial returns.

- More research and standardized methods and measurements are needed.

Evidence

Many studies use databases that rate several hundred companies on their corporate social performance over a period of years and then test the association of these ratings to indicators of financial strength.¹ A University of Pittsburgh research review of 46 studies, and our own review of studies by Graves and Waddock, Verschoor and Kleinwort Benson show positive correlations between CCI/CSP and CFP. Anecdotal and survey research in the U.S. and abroad shows that many business leaders, managers and analysts believe that CCI and CSP have a strong bearing on business success.

United States

University of Pittsburgh

A University of Pittsburgh Business School review of 46 studies on the links between CSP and CFP found a positive relationship between social and financial performance. In that review, which included studies conducted between 1971 and 1997:

- Thirty-two studies found a positive relationship between social and financial performance.
- Five studies found a negative relationship between social and financial performance.²

¹While the results of these efforts are compelling, these studies are often hampered by the methodological concerns described earlier in this report. (Wood and Jones, 1995)

²A number of studies have more than one finding (e.g., one study found certain relationships that were positive, and certain relationships that were inconclusive).

- Fourteen studies found no effect or an inconclusive relationship between social and financial performance.

(Roman et al, 1999)

Of studies conducted in the 1990s, (which, arguably, benefit from improved data and methodological approaches):

- Ten studies reported a positive relationship between CSP and CFP.
- One study found a negative relationship between CSP and CFP.
- One study found no effect or an inconclusive relationship between CSP and CFP.

Graves and Waddock

In a 1999 study, Graves and Waddock compared a group of companies featured in the best-selling management book, *Built to Last*, with a group of industrial counterparts. The “Built to Last” companies looked beyond “shareholder value” to pursue visions that included their performance and stature among stakeholders, while the comparison companies did not. The authors found that:

- “Built to Last” companies outperformed comparison companies on financial measures and had higher ratings on dimensions of CSP (including community relations).
- “Good” CSP was positively correlated to strong financial performance and “poor” CSP was positively correlated with weak financial performance.
- Strong community relations was positively correlated to strong financial performance.

(Graves and Waddock, 1999)

In 1997, in a large sample study comparing CSP to indicators of financial performance, the same authors found that positive correlation exists between strong social performance and various business measures:

- Return on Assets (ROA) increased by 2.4 percent as the CSP measure increased by one unit.
- The correlation between CSP and return on assets was statistically “very significant”; the correlation between CSP and return on sales was statistically “significant”; the correlation between CSP and return on equity was “positive but not significant.”

(Waddock and Graves, 1997)

Verschoor

A 1998 study by Verschoor compared the CFP of large public corporations that publicly emphasized a commitment to CSP with the CFP of those that did not. Companies committed to CSP stated in their annual reports that they would behave ethically with regard to stakeholders, or emphasize compliance with a code of ethics. In comparing such “committed” companies with other companies, the authors found that 26.8 percent of the 500 largest U.S. public corporations that publicly emphasized this commitment ranked higher in financial performance than corporations that did not.

(Verschoor, 1998)

Klienwort Benson

In 1995, Klienwort Benson found that the stock market performance of companies adopting a stakeholder management approach outperformed a sample of 350 comparison companies by 16 percent in the short term

and 38 percent in the long term.

(Klienwort Benson, 1995)

Maitland

A 1994 study by Maitland concluded that the best performing companies consider employees, customers and communities in management policies and processes.

(Maitland, 1994)

United Kingdom and Europe

MORI

In a 1996 study in the United Kingdom by MORI—a leading market research and communications firm—the majority of business leaders surveyed agreed that successful businesses serve shareholders by focusing on the needs of a broad constituency. A minority agreed that a company can be successful only if it focuses on the needs of shareholders.

- Seventy-two percent of the business leaders agreed that successful businesses better serve shareholders by focusing on the needs of customers, employees, suppliers and the wider community.
- Forty-four percent agreed that a business cannot succeed without recognizing that it is accountable to other stakeholders as well as shareholders.
- Thirty-one percent agreed that successful businesses have responsibilities to society and the community in addition to their responsibilities to shareholders.
- Twenty-three percent agreed that an exclusive focus on the shareholder can actually be counterproductive in increasing shareholders' value in the long-term.
- Seventeen percent agreed that success can only be

achieved if the company is focused on the needs of shareholders.

- Nine percent agreed that a business will lose its competitive edge if it focuses attention on any stakeholders other than shareholders.

(MORI, 1996)

A 1997 study, also by MORI, concluded that business success is linked to the process of moving stakeholders up a “relationship hierarchy.” This hierarchy begins by establishing awareness, moves to establishing transactions, and then peaks when the company and its stakeholders are willing to advocate for one another.

(MORI, 1997)

Financial Times of London

The Financial Times of London reported in 1998 that one in three investment analysts believe that a company's contributions to society and the communities in which it operates impact its financial performance.

(Financial Times of London, 1998)

The Centre for Tomorrow's Company, Inc.

According to a 1997 study, companies that are most financially successful over the long term are those which also rank high in the inclusive approach of establishing relationships with customers, employees, shareholders and other stakeholders.

(The Centre for Tomorrow's Company, Inc., 1997)

SOCIAL INVESTMENT

Main Findings

“Social investment” involves the decision to restrict certain investments to companies that have been judged

by some criteria to be good social performers. A diverse array of socially screened investment portfolios employ a large variety of criteria. In recent years, the investment community has increasingly focused its attention on the performance and commercial viability of social investment. In fact, the total value of all “responsibly invested” assets under management climbed from \$639 billion in 1995 to \$1.185 trillion in 1997. Such investments now represent about 10 percent of new dollar inflows, according to the Social Investment Forum (Verschoor, 1998). The growth in socially screened portfolios has been sparked by greater participation of individuals in equity markets (especially through the growing mutual fund industry), by the increased market and political influence of large employee pension funds, and by increased attention on CSP.

Measurement of the performance of these funds remains controversial, however, largely because there is no single definition for what constitutes a “socially responsible” firm. For example, some funds screen for defense contracts while others do not. That said, current research appears to support the contentions that:

- Choosing to invest in socially screened funds vs. traditional funds creates no special financial losses or gains.
- CSP/CCI does not harm shareholder value, and in some cases, adds to it.
- Socially screened funds are growing at a rapid rate.

With investors looking at measures beyond financial performance, CSP is likely to become an increasingly important dimension in their investment choices.

Evidence

Conference Board, 1999

- Socially screened funds are growing at more than twice the rate of the rest of the market.
- Neither a bonus nor a penalty flows from holding stock in “socially positive” companies. Certain portfolios have been able to outperform certain measures of the market.

(Conference Board, 1999)

Siegel and McWilliams, 1999

A recent study found no statistically significant difference in stock price performance between 950 companies selected for good social performance and another 1200 companies selected at random.

(Siegel and McWilliams, 1999)

Diltz, 1995

“Social screening of firms has little impact on portfolio returns. We view our results to be good news for investors who desire to invest in socially screened portfolios and for portfolio managers who are required to apply social screens.” These findings also apply to portfolios that screen for charitable giving and community outreach criteria.

(Diltz, 1995)

Waddock, forthcoming

In 1999, socially screened equity funds were twice as likely as traditional non-screened funds to earn the top rating from Morningstar, Inc. Morningstar’s analysis found that approximately 20 percent of “social” funds,

compared with only 10 percent of all mutual funds, earned the highest five-star rating.
(Waddock, forthcoming)

Johnson & Greening, 1994

“Institutional investors are not only interested in the bottom line, they are interested in other aspects of firm performance such as CSP.”
(Johnson and Greening, 1994)

PRESERVING THE LICENSE TO OPERATE

Main Findings

Key stakeholders—especially those in Europe—increasingly expect corporations to be good corporate citizens. The ways in which a firm addresses stakeholder expectations will go far in determining whether stakeholders support or challenge a firm’s license to operate.

- Stakeholder expectations for corporations to perform as good corporate citizens are rising.
- Many stakeholders believe that companies should partner with citizens and governments to help solve social problems, and that companies should behave in an ethical and responsible manner.
- Many individuals believe corporations are not doing enough for communities.
- Awareness of corporate community involvement greatly influences individuals’ perceptions of corporations.
- Stakeholders will be more supportive of companies they see as good social performers. They will be less supportive of those they identify as being poor social performers.

Evidence

Many companies cite anecdotes demonstrating that strong relationships with key stakeholders have prevented or mitigated crises or that such relationships have led to crucial support for key operational goals. Surveys demonstrate that Americans and Europeans are concerned about CCI/ CSP, and a growing body of data indicates that key stakeholders increasingly expect businesses to perform as good corporate citizens. To date, however, little empirical or economic analysis has been conducted to determine specifically how CCI and CCP have affected companies’ license to operate. This shortcoming should be addressed through further research.

Americans’ Attitudes Toward CSP

Shell, 1999

A national survey conducted by Shell found that a majority of Americans said businesses are doing just a “fair” or “poor” job of:

- Sharing profits with employees (73 percent)
- Protecting the environment (70 percent)
- Having ethical business practices (63 percent)
- Contributing to the local community (59 percent)

Approximately 40 percent of those surveyed viewed both “upholding ethical business practices” and “providing quality products and services” as priorities for business. A somewhat smaller percentage saw protecting the environment and contributing to the local community as priorities:

- Providing quality products and services (40 percent)
- Upholding ethical business practices (39 percent)

- Protecting the environment (25 percent)
 - Contributing to the local community (19 percent)
- (Shell, 1999)

Hill & Knowlton, Inc. and Yankelovich Partners, Inc., 1998 survey of 1000 Americans

- Seventy-six percent of respondents agreed with the statement that corporations have a much greater responsibility now than ever before to play a much greater role in responding to the needs of society.
- Americans think most favorably of companies that focus philanthropic efforts on donating products and employees to the community. Forty-three percent said donating products and services is most impressive; 37 percent said volunteering employees is most impressive; and 12 percent said giving a large sum of money would impress them the most.
- Sixty percent of U.S. respondents disagreed with the statement that a large corporation gives back more to the community than a small business.

(Hill & Knowlton, Inc. and Yankelovich Partners, Inc, 1998)

European and United Kingdom Attitudes Toward CSP

Fleishman Hillard, 1999

- In Europe, charities have a high level of credibility, whereas business does not.
- Ninety percent of Europeans increase their trust in a company when it demonstrates a commitment to social concerns. With credibility in companies low, social investment could create a “halo effect” for participating firms.
- Ninety-one percent of Europeans are more likely to trust a company that has shown a genuine commit-

ment to solving social problems.

- Nine in 10 Europeans expect companies to address social issues such as poverty.
- As European governments cut back social programs, consumers picture a three-way partnership of government, corporations and themselves to help fill the funding gaps.
- European companies have hesitated to publicize their social involvement for fear of being seen as manipulative of charities. As long as the investments deliver real value to society, companies are safe from criticism, holding a powerful tool for developing lasting, meaningful relationships with corporate stakeholders.

(Fleishman Hillard, 1999)

Wilson, et al, 1998

More and more companies in the FTSE 350 and FTSE 100 are reporting environmental, social or community issues in financial reports. Leading edge companies are conducting social audits.

(Wilson, et al, 1998)

MORI

In a 1997 survey in the United Kingdom:

- More than 70 percent of 97,000 customers agreed that, over the last 10 years, companies have become more focused on profitability and less concerned about their wider responsibilities to their customers, staff and society.
- One in five journalists said that knowledge of a company’s community involvement greatly improves their image of that company. Fewer than one in 20

**COSTS AND BENEFITS
IN PRESERVING THE LICENSE
TO OPERATE**

- Positive customer perceptions about the quality and nature of a company's products, its environmental awareness, and its government and community relations are increasingly becoming bases of competition... Such positive perceptions of the firm by outside stakeholders may lead to increased sales or reduced stakeholder management costs... Performance along CSP dimensions allows companies to forego difficult and costly battles for site placement with communities or government officials, or avoid payment of fines for environmental problems.

("The Corporate Social Performance—Financial Performance Link," Waddock & Graves, 1997)

- Clear evidence shows that poor corporate citizenship invites regulatory or legal sanctions leading to negative consequences for shareholders.

(The Conference Board, 1999)

journalists said there is no business benefit from community involvement.

(MORI, 1997)

In a 1998 survey, 77 percent of adults surveyed by MORI said that when forming an opinion about a com-

pany, it was either "very" or "fairly" important for them to understand the activities of corporations in society.

(MORI, 1998)

In a 1996 survey, MORI found that:

- Seven out of 10 U.K. business leaders agreed that a successful business will better serve the needs of its shareholders by focusing on the needs of its customers, employees, suppliers and the wider community.
- Twenty-three percent agreed that an exclusive focus on the shareholder can actually be counter-productive in increasing shareholders' value in the long term.

(MORI, 1996)

MORI/BITC

In 1997 in the United Kingdom:

- Sixty-eight percent of the general public, 27 percent of the "captains of industry," 50 percent of business journalists and 83 percent of Labour MPs said that companies did not pay enough attention to their social responsibilities in 1996.
- Ninety-four percent of U.K. Labour Party officials and 71 percent of Conservatives believe there is a greater role for industry to play a part in the community.

- MPs perceive that companies engaging in long-term sponsorship provide benefits to the community and charities as well as the company itself.
- Nine in 10 U.K. Members of Parliament believe companies should provide details of the scale and

impact of their community investment activities. (MORI/BITC, 1997)

CONSUMER BEHAVIOR

Main Findings

Recent studies concerning the relationship of CCI/CSP to consumer attraction and retention support the following conclusions:

- Consumers support companies they believe are good corporate citizens. Individuals often report that they hold a more positive image of companies they know are good corporate citizens and are involved in the community.
- CSP provides competitive advantage in marketing products and services. A majority of consumers will use their knowledge of CSP as a “tie-breaker” in their purchasing decisions. While CSP cannot substitute for superior product quality or pricing, it does improve strategic advantage among firms offering similar products. In some cases, consumers are willing to pay a higher price for goods and services from socially responsible firms. Moreover, cause-related marketing can be an effective tool for consumer attraction and retention.
- CSP increases brand differentiation. CSP can differentiate a company, its products and its brands in a competitive marketplace.
- To generate value, a company must ensure that key audiences are aware of its citizenship efforts. To fully capitalize on the resources devoted to CSP, companies need to effectively publicize their efforts. Key audiences will be receptive to promotional

efforts around CSP activities if they perceive that “real value” was provided to society.

Evidence

United States Findings

Cone/Roper

According to a 1999 study conducted by Cone/Roper:

- Eighty-six percent of those surveyed said they would be more likely to buy a product associated with a cause; 76 percent would likely switch to a brand associated with a good cause and 76 percent would likely switch to a retail store associated with a good cause.
- Eighty-six percent of consumers have a more positive image of a company if they see it is doing something to make the world a better place.
- Seventy-seven percent of U.S. consumers want companies to commit to a specific cause for a long time, rather than conduct short promos with several causes.

(Cone/Roper, 1999)

Walker Research

In a 1994 survey of 1037 households, Walker Research found that when products and services are equal:

- Forty-seven percent are “much more likely” to buy from a good corporate citizen and 41 percent are “somewhat more” likely.
- Fifty-two percent would be willing to pay more to use a socially responsible company.

(Walker, 1994)

The Center for Corporate Community Relations at Boston College

In a 1994 Center survey of 1572 households:

- Seventy-seven percent of respondents said their purchasing decisions were influenced by their perceptions of a company's involvement in the community.
- Seventy-four percent said they chose not to do business with companies perceived as not acting with the best interests of the community in mind.

(Boston College CCCR, 1994)

Pillsbury

In a 1994 study by Pillsbury:

- Fifty-nine percent of respondents indicated that it was "very important" for them to buy goods from a company involved in charitable giving. An additional 30 percent said it was "important."
- Seventy-three percent said corporate donors have a more positive public image.
- Thirty-five percent said that they would be "very likely" to switch brands based on a company's corporate giving record; 24 percent would be "somewhat likely."

(Pillsbury, 1994)

Wirthlin

In 1994, according to a Wirthlin Group study, 30 percent of respondents indicated that corporate citizenship has "a lot of influence" on purchasing decisions, and 39 percent said that it has "some influence."

(Wirthlin, 1994)

International Findings

Comparative Data

In a comparative study conducted by business scholars of consumers in the U.S., U.K. and South Africa, researchers found that CSP affects buying decisions if consumers are aware that a company is involved in such activities.

(Zalka, Downes, and Paul, 1997)

**BUILDING CUSTOMER
AWARENESS**

"Community contribution and (crucially) its communication, give companies a competitive edge. Communication should be stressed, because the public generally has little knowledge of what individual companies do—only one in three can think of a single company that makes a community contribution, and no single company is mentioned more than 12 percent. When we show people the range of activities companies already undertake they tend to be stunned and impressed."

*Stewart Lewis, Director, MORI.
(Adkins, 1999)*

EMPLOYEES' VIEWS ON THE BEST COMPANIES TO WORK FOR

A 1994 survey in the United Kingdom found that in employees' views, high morale/high performance companies excel in management quality, communications effectiveness, commitment to safety and superior working conditions. Notably, little difference existed between companies rated the "best" and other, lower-ranked companies in terms of pay equity, benefit provision or the organization of work. Through this survey and a benchmarking consortium, the companies cited as being the "best" possessed the following attributes:

- Socially responsible in the community
- Customer and quality focused and highly regarded by customers
- Management interested in the well-being of employees
- Employees treated with fairness and respect
- Employees offered job security as long as they perform well
- Employees engaged in quality improvement, provided with the equipment, resources and training needed for such improvement, and kept well-informed about important matters

Maitland, R., "Employee Morale in the High Performance Organization," International Survey Research Ltd., 1994.

Europe and the United Kingdom

In a 1999 survey of 4,003 Europeans age 15 or older, Fleishman Hillard found that 86 percent of Europeans would be more likely to purchase a product from a company "engaged in activities to help improve society."
(Fleishman Hillard, 1999)

According to a 1998 study by Mintel:

- Seventy-seven percent of U.K. consumers would

support a product linked to a cause.

- Sixty percent of U.K. consumers would be willing to pay more for a product linked to a cause.
- Fifty percent of U.K. consumers would be willing to switch brands to a product linked to a cause.

(Mintel, 1998)

In 1994, the Henley Centre for Forecasting found that

64 percent of those polled said their purchasing decisions were influenced by companies that practice environmental and social responsibility. This figure was up from 52 percent in 1981.

(Henley Centre for Forecasting, 1994)

South Africa

In a 1998 Corporate and Social Market Research survey of 1,325 individuals between ages 18 and 35, 77 percent of South African consumers said that their purchasing decisions are “greatly influenced” by a company that cares and acts responsibly towards communities.

(Corporate and Social Market Research, 1998)

HUMAN RESOURCES

Main Findings

The potential connection between corporate social performance and human resources is only beginning to gain researchers’ attention. Nevertheless, a number of studies indicate that corporate social performance has a positive influence on employee attraction and retention, skill development and attitudes:

- CSP/CCI aids attraction, recruitment and retention. Employees are drawn to companies with strong reputations for CSP/CCI, and are more loyal to companies that are active corporate citizens.
- Employee volunteer programs are a particularly effective means of enhancing employee skills. Employee involvement in the community and in corporate volunteer programs can foster skill development and competence, especially when managed strategically. Almost any skill can be enhanced if

CSP AND COMPETITIVE ADVANTAGE

“Firms higher in CSP have more positive reputations and are more attractive employers than firms lower in CSP. Such results suggest that potential applicants are aware of firms’ corporate social performance and that those with more positive ratings may have competitive advantages because they attract more potential applicants than firms with lower CSP ratings. More broadly, our results extend to other work indicating that firms’ positive corporate social performance may lead to potential competitive advantages and suggest that firms’ leaders may wish to consider not only the moral or ethical rationale for proactive corporate social actions... but also the potential competitive advantages it may afford them. Our results...support an association between corporate social performance activities and potential competitive advantages.”

(Turban and Greening, 1997)

projects are carefully chosen and structured.

- To create benefits, employees must be aware of their companies' efforts to be good corporate citizens. Companies should promote and publicize their CSP efforts among existing and prospective employees, as well as to customers and investors.

Evidence

Most of the studies described below are based on surveys of employees or managers or on case studies of company programs. They evaluate the impact of CSP on employee attraction, recruitment and retention and the effectiveness of employee volunteer programs.

Employee Attraction, Recruitment and Retention

Turban and Greening

Turban and Greening are among the few management scholars who have attempted to determine the relationship between CSP and employee attraction. In a 1997 study they found that:

- Ratings of a firm's corporate social performance were related to ratings of the firm's reputation and attractiveness as an employer, suggesting that such performance may provide a competitive advantage by attracting potential applicants.
- Attractiveness as an employer correlates significantly with ratings of a firm's community relations, employee relations and product quality.

(Turban and Greening, 1997)

The Center for Corporate Community Relations at Boston College

In a 1995 Center study, researchers found that the

majority of employees believed a company's community image was important:

- Eighty-four percent of employees surveyed felt that a company's image in the community is "important." Fifty-four percent believed it is "very important."
- Researchers also found that "a company's reputation in the community affects employee loyalty."

(Boston College CCCR, 1995)

Volunteer Programs

A number of studies investigate how corporate volunteer programs can benefit a business and its employees. Evidence shows that volunteering enhances employee attraction, recruitment, loyalty and skills, as well as a company's image in the community.

Points of Light Foundation

According to a 1998 study by the Points of Light Foundation:

- Nearly 90 percent of companies surveyed said corporate volunteer programs improve employee retention and morale, aid in recruitment and build better teams.
- Half of the respondents also reported a direct correlation between volunteerism and profitability.

(Points of Light Foundation, 1998)

Council on Foundations and Walker Information

A 1996 study by the Council on Foundations and Walker Information found that employees involved in employer-sponsored community events are 30 percent more likely to want to continue working for that company and help it be a success.

PILLSBURY COMPANY STUDY

A University of Michigan study evaluating the volunteer programs of The Pillsbury Company found that volunteer programs may help to cultivate a workforce that is motivated to support and act in accordance with organizational interests.

Employee volunteers viewed their membership in The Pillsbury Company more positively following their volunteer work. Employees were less likely to define the company's identity in terms of hierarchical relationships, rules or procedures. Instead, they were more likely to emphasize the organization as adaptable and innovative. They also developed more positive judgments about how outsiders are likely to view the company.

The study concluded that volunteering can increase the level of commitment and identification of employees for the company, improve the image employees hold for the company, and improve work self-esteem. Volunteer initiatives can be designed to support employee skill and professional development in such areas as basic management skills, teamwork skills and problem-solving skills. The development of strategic management skills requires more complex volunteer activities.

Employee responses:

- Ninety-one percent of Pillsbury employees “strongly agreed” that they gained a sense of personal satisfaction from the volunteer project.
- Ninety percent of employees reported that volunteering enabled them to develop generic work-related skills.

Supervisor responses:

- Eighty-four percent of Pillsbury supervisors surveyed agreed that “volunteering can promote professional development.”
- In blind reviews, 76 percent of supervisors reported that they detected a “modest, but noticeable, change in employee volunteer behavior during the seven-month period of the study.”
- Eighty percent of supervisors agreed that the work behaviors of volunteers had changed more than the work behaviors of other department employees.
- Eighty-nine percent of supervisors agreed that volunteers engaged in positive work behaviors more frequently than the typical department employee.

(Pillsbury, 1998)

(Council on Foundations and Walker, 1996)

Corporate Citizenship Company

A 1998 study by the Corporate Citizenship Company found:

- Staff who measured competency gains with “before and after” self-assessments showed an overall improvement of 17 percent. Staff making personal assessments of the overall effectiveness of their activity as a development tool gave a weighted average score of 72 out of 100 maximum points. Both findings compare favorably with ratings of traditional training programs.
- Supervisors assessing NatWest employee volunteers rated their workers as showing an overall improvement of 14 percent. In addition, 71 percent of managers said the business benefitted from the individuals’ involvement in community activity.
- One-hundred fourteen employees of 500 in Halifax’s Community Development Circles rated the company benefit of their involvement in the program at 7.3 out of a maximum of 10 points.

TARGET STORES AND “FAMILY MATTERS”

In 1992 the Points of Light Foundation developed “Family Matters,” a volunteer program designed to involve companies, employees and their families in community service projects. Target Stores was one of the first companies to pilot this program. Data on Target’s program—primarily from employee surveys and interviews—were compiled over a three-year period. Major findings include:

- More than 90 percent of employee volunteer team leaders (“Good Neighbor Captains”) at Target believe that their volunteer projects improved Target’s image. “Many of the managers, volunteers and service agency personnel interviewed suggested that the effort also gave Target a competitive advantage by creating customer and employee loyalty and attracting new customers.”
- Seventy-five percent of the volunteer team leaders say that participation in the program improved employee morale and built a positive attitude in the workplace.
- Ninety percent of team leaders report that participation was beneficial to employees. The program provided “quality time” and promoted family cohesion.

(Conference Board, 1997)

Supervisors rated a competency gain of 18 percent as attributable to the program.

- The top three competencies showing the most development gain were communication skills, collaboration and team-working skills, and creative thinking skills.

(Corporate Citizenship Company, 1998)

Employee Awareness of CSP

Studies show that for CSP to be most effective within an organization, employees should be made aware of their companies' CSP activities.

Turban and Greening

According to a 1997 study by Turban and Greening, "corporate social performance may provide a competitive advantage in attracting applicants only when applicants are familiar with a firm and its CSP."

(Turban and Greening, 1997)

The Center for Corporate Community Relations at Boston College

In 1995, The Center found that "the association between a company's reputation in the community and employee loyalty is stronger among employees who are familiar with the company's community relations activities."

(Boston College CCCR, 1995)

European and U.K. Studies of CSP and

Employee Behavior

European and U.K. studies support the findings of American studies:

CSP and employee attitudes and behavior

- Eighty-seven percent of European employees feel greater loyalty to socially-engaged employers. *(Fleishman Hillard Europe, 1999)*
- Thirty-three percent of the British workforce strongly agree that a company contributing to society and the community is also a good company to work for. *(The Conference Board, 1999)*
- Thirty-two percent of respondents strongly agree and 55 percent agree that "a company that supports society and community is probably a good company to work for." *(MORI, 1997)*

Volunteering

A study by the United Kingdom's Corporate Citizenship Company (1998) suggests that employee volunteering benefits the company by:

- Improving local relations
- Enhancing the corporate image
- Fostering better attitudes among employees
- Improving employee skills and competencies
- Increasing retention
- Reducing absenteeism
- Providing a means of gaining a better understanding of community needs

(Corporate Citizenship Company, 1998)

INNOVATION IN MARKET AND PRODUCT DEVELOPMENT

Main Findings

CSP is increasingly viewed as a tool that can help to create and develop new markets, products, a workforce and suppliers. Anecdotal evidence suggests that CSP

can promote innovation in these areas, and research shows that school-to-work programs benefit both participants and companies (see sidebar on page 33). There is little hard research, however, measuring the effectiveness of strategies or management practices in this area. The following examples offer a promising field for more detailed research.

Evidence

Development of New Markets

Companies note that the relationships they develop in the community can be used to create new, profitable markets:

- Prudential, for example, recently piloted a program to attract and retain customers through “relationship marketing” with employee volunteering. Early reports of the benefits have been very positive.
- EDS has noted in corporate reports that its involvement in the Jason Foundation (a program using Internet and satellite technology for classroom science education) has been a highly effective business development tool because it demonstrates the company’s technical capabilities and its commitment to its community.
- The financial industry is beginning to define opportunities in under-served, low-income communities. Banks such as Bank of America, Banc One and BankBoston, and insurance companies such as Safeco and Allstate have begun to develop targeted products and services in low-income communities.
- Companies within the health care industry are beginning to use community involvement programs to connect to the growing Latino and Asian markets.

Creative use or Testing of New Products

- Bell Atlantic used a community project in the public schools to help test and develop its High-bit-rate Digital Subscriber Line.
- Motorola used product donations given during the Kosovo crisis to learn new uses for its wireless communication products.
- An agreement between wireless phone manufacturers, the FCC and disability rights groups promises product features that will be profitable and meet the needs of the disabled.

Support for Workforce and Supply Chain Development

- American Express combined philanthropic programs with loaned expertise to build a network of travel service providers in its Eastern European markets.
- Coca-Cola has used a mix of core business assets and philanthropy to establish a full supply chain of vendors and providers of its products in Poland.
- Marriott has received extraordinary attention for its welfare-to-work programs in the U.S. Its efforts have helped build a loyal and productive workforce.
- A comparative study of the school-to-work programs of eight companies found that all of the companies derived measurable business benefits. (See sidebar on page 29.)

CREATING VALUE-ADDED FROM SCHOOL-TO-WORK PROGRAMS

The National Employer Leadership Council (NELC) recently conducted a comparative case study of eight companies involved in school-to-work programs. The research examined both the business returns and education benefits from the programs. The study shows that the companies derived measurable business benefits from school-to-work programs, quantified in terms of:

- Reduced recruitment costs
- Reduced training and supervision costs
- Reduced turnover
- Increased retention rates
- Higher productivity of students
- Higher productivity and promotion rates of school-to-work program graduates hired by the participating company

The study conducted a benefit-cost analysis of the program for participating companies. The NELC found that “the benefits of school-to-work programs exceed the costs in nearly three out of four companies studied. All of the companies enjoyed some return on investment.”

The following lists the benefit-cost ratios identified through the study (a ratio of “1.15” means that a company earned back the dollar it invested in the school-to-work program “plus an additional 15 cents in benefits. Any ratio above 1, then, represents a positive return on investment.”)

- Autodesk: ratios ranged from 1.15-2.99 across departments with a median of 2.32
- Charles Schwab: ratios ranged from 0.40—5.64 depending on whether forecasts of retention rates are realized
- Crown Auto World: ratios ranged from 1.39—3.21
- Eastman Kodak: ratios ranged from 0.87—1.05
- McDonald's: ratios ranged from 0.88—1.02
- Siemens: ratios ranged from 1.07—1.79 in one site and 0.54—0.59 in another site
- Sutter Health: 1.39
- BellSouth: nature of the program did not lend itself to cost calculations

(National Employer Leadership Council, 1999)

Implications for Research into the Business Case

An emerging foundation of evidence supports the business case for corporate social performance. There is still a fair distance to travel, however, before the burden of proof is met. Methodologies for measuring the business benefits of CSP across all the dimensions discussed in this report require development. It is not yet clear how CSP protects, enhances or supports corporate assets and functions, and there are gaps in theory. Going forward, there are several other challenges that merit attention as well:

- While aggregate studies that broadly link CSP to corporate financial performance are of unquestionable value, few studies rigorously attempt to measure the benefits that accrue to a single corporation or a cluster of corporations. Such studies would be valuable for demonstrating how CSP benefits (or fails to benefit) a company. They would also provide ideas and techniques for companies interested in developing or measuring their own CSP programs.
- There is a significant dearth of information on effective management practices, tools, resources and activities for CCI and CSP. There been little to no effort to correlate “best” CCI management practices with financial returns. Poor management of CCI/CSP will hinder business’s efforts to derive benefits from their practices.
- Studies tend to focus on Western, developed nations. This is slowly changing with explorations into the benefits of CSP in Asia and the developing world. However, as business globalizes, it will be increasingly important to understand how CSP plays out in different regions.
- It is also important to improve our understanding of how CSP may differ for enterprises of varying sizes.

Our current knowledge about the role and potential benefits of CSP for small- to medium-sized enterprises is quite limited.

- Finally, while it is not the focus of this report, the perspective of stakeholders must not be neglected. It is often presumed that CSP naturally creates benefits for the stakeholders it addresses. Existing research is not sufficient to either dispute or confirm this proposition. Creating “win-win” strategies require an understanding of what would constitute a “win” for each of the parties involved.

Implications for Corporate Social Performance

The data presented in this report suggest two fundamental implications for corporate action:

- Companies should take a strategic approach to corporate citizenship.
- Companies should measure the performance of their CCI/CSP programs.

Companies Should Take a Strategic Approach to Corporate Citizenship

In developing CCI/CSP programs, it is crucial that a business set forth a clear vision and goals, identify key issues and participants, and make decisions about resources and responsibilities. More specifically, a business should:

- Set forth a vision encompassing the role the company will perform in society, the quality and character of relationships it will build with key stakeholders, and the impact its social performance will have on the company and its stakeholders
- Identify key stakeholders
- Identify key issues posing threats or opportunities for the company
- Design strategic programs and responses
- Allocate sufficient resources
- Determine responsibility and accountability for social performance in all company departments and at all levels

Companies Should Measure the Performance of Their CCI/SCP programs

Measurement is a critical dimension of leading practice in core business functions. It is no less so for CCI/CSP. Measurement initiatives should broadly

focus on three elements:

- Process efficiencies and improvements
- Business outcomes and returns
- Stakeholder outcomes and impact

While, as noted earlier, the latter element is not the focus of this report, it should not be neglected.

CCI/CSP activities that are perceived as too self-serving will ultimately be self-defeating. A strategic approach to CSP emphasizes mutual benefits for the company and its stakeholders. Measurement is critical in determining whether a company is indeed creating value for its stakeholders or simply providing “lip service” to the concept.

A Final Word

There is compelling evidence that CCI/CSP supports the corporate bottom line. However, there is much debate about the extent to which companies should emphasize their obligations to shareholders over their responsibilities to stakeholders. In coming years, pressure on business to pay greater attention to its role and performance in society is likely to increase. Business leaders and concerned observers should continue to support and demand research into the outcomes and impact of CCI/CSP as it relates to business and its key communities.

BIBLIOGRAPHY

- Adkins, Sue. *Cause Related Marketing: Who Cares Wins*. Oxford: Butterworth-Heinemann, 1999.
- Baron, David P. "The Nonmarket Strategy System." *Sloan Management Review*. Fall 1995.
- Bartel, Caroline. "The Impact of Corporate Volunteerism on Employee Development: An Examination of Pillsbury Employee Volunteer Programs." The Pillsbury Company. 1998.
- Boston College Center for Corporate Community Relations. *Employee Assessment of Corporate Image and Organizational Commitment*. Boston, Mass.: Boston College Center for Corporate Community Relations. 1995.
- Boston College Center for Corporate Community Relations. *Employee Measurement of Consumer Attraction to Socially Responsible Companies*. Boston, Mass.: Boston College Center for Corporate Community Relations. 1994.
- Boston College Center for Corporate Community Relations. *Standards of Excellence*. Boston, Mass.: Boston College Center for Corporate Community Relations. 1994 (revised 1999).
- Burke, Edmund. *Corporate Community Relations: The Principle of the Neighbor of Choice*. Westport, CT: Praeger, 1999.
- "Business sees benefits from a show of social conscience." [1998 MORI survey]. *Management Today*. Feb. 1999: 8.
- The Centre for Tomorrow's Company Inc. *The Inclusive Approach and Business Success: The Research Evidence*. London, England.: The Centre for Tomorrow's Company Inc. 1997: 24.
- Coletta, Carol C. "Strategic Community Investment: Compassion is the Consequence of Action." *Vital Speeches of the Day*. 56(22) Sept 1, 1990: 682-684.
- Cone Inc. 1999 *Cone/Roper Cause Related Trends Report: Evolution of Cause BrandingSM*. Boston: Cone Inc., 1999.
- The Conference Board, Inc. *The Link Between Corporate Citizenship and Financial Performance*. New York, NY: The Conference Board, Inc. 1999: 15.
- The Conference Board, Inc. *Corporate Volunteerism: How Families Make a Difference*. New York, NY: The Conference Board, Inc. 1997.
- The Conference Board, Inc. *Investing in Profitable Customer Relationships*, New York, NY: The Conference Board, Inc. 1997.
- The Corporate Citizenship Company. *Community Affairs Briefing*. London, England: The Corporate Citizenship Company. April 1998: 24.
- The Council on Foundations. *Measuring the Value of Corporate Citizenship*. Washington, D.C.: The Council on Foundations. 1996.
- Daviss, Bennett. "Profits from Principles." *The Futurist*. March 1999: 28-33.
- Deutsch, Claudi H. "Not Doing Better by Doing Good" [on research by Abigail McWilliams and Donald Siegel]. *New York Times*. Sept. 5, 1999.
- Diltz, David J. "Does Social Screening Affect Portfolio Performance?" *Journal of Investing*. Spring 1995.
- Duboff, R. & Heaton, C. "Employee Loyalty: A Key Link to Value Growth." *Planning Review*. 27(1). Jan/Feb. 1999: 8-13.

- EDS Inc. "EDS in the Community: Community Affairs Strategic Plan: Becoming a Neighbor of Choice." Dallas, TX: EDS Inc. 1997.
- Erffmeyer, Robert C., Keillor, Bruce D. LeClair, and Debbie Thorne. "An Empirical Investigation of Japanese Consumer Ethics." *Journal of Business Ethics*. 18(1), January 1999: 35-50.
- Fleishman Hillard. *Consumers Demand Companies with a Conscience*. Fleishman Hillard, Europe, London, 1999.
- Fombrun, Charles. "Corporate Reputation: An Exploration of its Measures, Drivers, and Impact as a Non-Tangible Business Asset." *Corporate Public Affairs*. 8(2), 1998.
- Gildea, Robert L. "Consumer Survey Confirms Corporate Social Action Affects Buying Decisions." *Public Relations Quarterly*. Winter 1994-95.
- Googins, Bradley K. "Why Community Relations is a Strategic Imperative." *Strategy & Business*. No. 8, 3rd quarter, 1997: 7-10.
- Graves, Samuel, and Sandra Waddock. "Beyond Built to Last: Stakeholder Relations in 'Built-to-Last' Companies." 1999. (forthcoming)
- Gribben, Chris, Andrew Wilson and Ayril Dale. Ashridge Centre for Business and Society. "Making Community Investment Work: A Guide to Effective Corporate Community Investment Management." Ashridge Research, England, 1996: 50.
- Hill & Knowlton Inc., and Yankelovich Partners Inc. "Money Can't Buy Love; Americans More Impressed with Giving Away Products and Employees' Time than Cash." Sept. 8, 1998.
- Hines, Charlotte. "The Business Benefits of Corporate Social Responsibility." *Financial Times*, December 1998.
- Johnson, R.A., and D.W. Greening. "Relationships Between Corporate Social Performance, Financial Performance and Firm Governance," 1994 *Best Paper Proceedings of the Academy of Management*. 1994: 314-318.
- Lewis, Stuart. "Corporate Social Responsibility—The Public's View." MORI, 1994.
- Maitland, Ian. "Morality of the Corporation: An Empirical or Normative Disagreement?" *Business Ethics Quarterly*, Vol. 4, No. 4, Oct. 1994: 445-58.
- Marx, Jerry D. "Strategic Philanthropy: Implications for Social Work." *Corporate Social Work*. 43(1), 1999: 34-41.
- MORI/BITC Polls and Surveys. "MPs Want Increased Community Role for Companies." 1997.
- Moss Kanter, Rosabeth. "From Spare Change to Real Change: The Social Sector as a Beta Site for Business." *Harvard Business Review*. May-June 1999.
- Murphy, Claire. "Brand Values Can Build on Charity Ties." *Marketing*. March 25, 1999: 2
- Nel, Bets. *The Influence of Corporate Social Responsibility on Consumer Purchasing Behavior*. South Africa. Corporate and Social Market Research.
- Nel, Fred. *The Importance of CSI Communication*. Corporate and Social Market Research. South Africa.
- The Pillsbury Co. *Pillsbury's Community Involvement Report*. Minneapolis, MN: The Pillsbury Co. 1994.
- Points of Light Foundation. *Building Value: The Corporate Volunteer Program as a Strategic Resource for Businesses*. Washington, D.C.: Points of Light Foundation. 1998.

- Riahi-Belkaoui, Ahmed. "Executive Compensation, Organizational Effectiveness, Social Performance and Firm Performance: An Empirical Investigation." *Journal of Business Finance and Accounting*. 19(1). January 1992.
- Rochlin, Steven A. "The Corporate Citizenship Advantage." *The Boston Business Journal*. November 14, 1997.
- Roman, Ronald, Sefa Hayibor, and Bradley Agle. "The Relationship Between Social and Financial Performance." *Business and Society*. 38(1). March 1999.
- Shell, Inc. "Business Values." <<http://www.countonshell.com/SOC/ShellPoll/morals/businessvalues.html>>
- Simerly, Roy. "Measuring Corporate Social Performance: An Assessment of Techniques." *International Journal of Management*. June 1999: 253-257.
- Tait, Simon. "Care in the Community." *Financial Times*. June 30, 1998: 3.
- Tuffrey, Michael. The Corporate Citizenship Company. *Valuing Employee Community Involvement*. The Corporate Citizenship Company. 1998.
- Turban, Daniel B. and Daniel W. Greening. "Corporate Social Performance and Organizational Attractiveness to Prospective Employees." *Academy of Management Journal*. 40(3). 1996: 658-672.
- Verschoor, Curtis C. "A Study of the Link between a corporation's financial Performance and its commitment of ethics." *Journal of Business Ethics*. October 1998: 7.
- Waddock, Sandra A., and Samuel B. Graves. "The Corporate Social Performance–Financial Performance Link." *Strategic Management Journal*. 18(4). 1997: 303-319.
- Waddock, Sandra A., and Samuel B. Graves. "Good Management and Good Stakeholder Relations: Are They Synonymous?" Presented at the IAMBS Annual Meeting, March 1996.
- Wilkinson, Amanda. "Cause for Concern [at Nestle UK]." *Marketing Week*. 22.2. Feb 11, 1999: 28-31.
- Wirthlin Group. "The Importance of good corporate citizenship." Wirthlin Report. McLean, VA. October 1995. <<http://209.204.197.52/publicns/report/wr9510.htm>>.
- Worcester, Robert M. "The Business Benefits of Corporate Social Responsibility." *Financial Times*. Dec. 3, 1999. <<http://www.ft.com>>; or <<http://www.mori.com/pubinfo/bus-csr.htm>>.
- Zalka, Lori, Meridith Downes and Karen Paul. "Measuring Consumer Sensitivity to Corporate Social Performance Across Cultures: Which Consumers Care Most?" *Journal of Global Marketing*. (11)1. 1997: 29-48.



A RESEARCH CENTER AT
BOSTON COLLEGE
THE WALLACE E. CARROLL
SCHOOL OF MANAGEMENT

55 LEE ROAD • CHESTNUT HILL, MA 02467-3942 • PHONE 617.552.4545 • FAX 617.552.8499
E-MAIL: ccc@bc.edu • www.bc.edu/corporatecitizenship