Financial Returns of Corporate Social Responsibility,

and the Moral Freedom and Responsibility of Business Leaders

Peter deMaCarty
Managing Director
Beacon Management Consulting
2251 Grant Road, Suite H
Los Altos, CA 94024
925-831-1575
peter.demacarty@worldnet.att.net

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Biographical Information

Peter deMaCarty is Managing Director of Beacon Management Consulting, which offers strategy consulting, research, and coaching. Its focus is on facilitating the work of decent business leaders to enhance their strengths and those of employees and the firm, and to more effectively apply those strengths in creating social, environmental and financial value. Earlier in his career, he held positions in market research management at Hewlett-Packard Company. There he focused on understanding customer psychology to facilitate the design of genuinely useful products. He has a Ph.D. in clinical psychology from Fielding Graduate University.

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Abstract

A number of theorists have proposed mechanisms suggesting that corporate social responsibility produces better financial results. Others subscribe to the theory that, realistically, less ethical means are necessary. This article contains an analysis of these perspectives drawing on observations from evolutionary game theory and nature. Based on these analyses, it is concluded that the financial returns of corporate social responsibility and irresponsibility (CSR and CSI) are equal on average. The explanation is that CSR and CSI are driven to a state of equilibrium, because if one or the other were to offer higher profits, it would attract more players who would compete for the best opportunities until there was no difference in average profit. Existing empirical research generally shows a positive correlation between CSR as measured and financial outcomes. It is argued that what is actually causing that finding is probably not CSR but management skill. More skillful managers, whether actually responsible or irresponsible, are able to obtain both higher profits and greater credit in imperfect measures of CSR. Next it is shown that this theory of equal returns implies greater moral freedom and therefore responsibility for business leaders. It is concluded that this insight can intensify the interest of decent business leaders in vigorously championing CSR.

Keywords: *Corporate social responsibility; corporate financial performance; moral freedom; deontology*

For more than 35 years a quest has been underway to determine whether corporate social responsibility (CSR) produces higher financial returns (Margolis and Walsh 2003: 273). For example, a number of theorists have developed a substantial literature arguing that socially responsible practices are part of a constellation of management behaviors that contribute to better financial performance (Jones 1995; Kotter and Heskett 1992; Pfeffer 1998; Reichheld 1996; Ullmann 1985; Waddock and Graves 1997). Also, more than 127 empirical studies have been conducted on the subject (Margolis and Walsh 2003).

If work on this subject clearly established that CSR produced stronger corporate financial performance (CFP), there would be major benefits. Then it would not be necessary to attempt via normative arguments alone to persuade those who believe business should focus primarily on financial returns that some profits should be sacrificed in favor of CSR (cf Wood and Jones 1995: 230-231). The existing theoretical work gives a logical account of why CSR should yield greater returns than corporate social irresponsibility (CSI), but nevertheless there are significant issues that it does not integrate. As a whole, the empirical studies seem to support that theory in that they tend to find a positive correlation between measured CSR and financials. However, the correlation is not very strong, and a substantial proportion of the studies has not found a positive relationship. Also, these studies have important limitations (Griffin and Mahon 1997; Lydenberg 2000; Margolis and Walsh 2003 and 2001; Preston and O'Bannon 1997; Roman, Hayibor and Agle 1999; Waddock and Graves 1997; Wood and Jones 1995.)

It is clear that many companies continue to be longer on CSR words than action (Moskowitz 2002; Waddock 2002). Thus, despite excellent progress in a substantial number of companies, we are still a long way from seeing CSR become fully adopted by business (see Franklin 2008: 3-6, 22-24). So it is apparent that the normative arguments, theoretical work and empirical research in favor of CSR have left many business leaders unconvinced. As a result, it is clearly worthwhile to continue seeking a better understanding of the CSR-financial relationship.

The conclusion of this article is that, contrary to existing theory, CSR actually does not produce stronger financials; but it does not produce weaker returns either. Instead, the average returns of CSR and CSI are equally strong. One essential positive aspect of that conclusion is that there still are excellent opportunities for responsible companies to achieve outstanding financial results. The existing literature makes an important contribution by explaining the techniques that can be used by CSR companies to achieve such results.

The insight that returns are equal will be developed by first reviewing the theoretical literature, then discussing the gaps in it. Next several points about game theory, including dynamics in the natural world that operate in the way certain games do, will be discussed. It might be objected that regardless of the theoretical merits of this idea, the empirical research overall, its limitations notwithstanding, finds that CSR correlates with better financials. Therefore that research will be discussed. Next implications for moral theory will be examined. Then implications for the mission of the firm, for further empirical research, and for management practice will be considered.

Review of Theoretical Literature

Arguments that CSR Improves Financial Returns

Explanations of why CSR should result in stronger financial returns center around the benefits of creating goodwill on the part of stakeholders (Jones 1995; Kotter and Heskett 1992; Pfeffer 1998; Reichheld 1996; Ullmann 1985; Waddock and Graves 1997). Variations of this perspective have been described using terms including instrumental stakeholder theory (Jones 1995), good management theory (Waddock and Graves 1997), intelligent, adaptive management (Kotter and Heskett 1992), and a loyalty effect (Reichheld 1996).

An extensive range of specific advantages has been described. Delivering superior value to customers increases loyalty of employees through greater satisfaction and pride in their work (Reichheld 1996). In addition, CSR may make it easier to attract better employees (Waddock and Graves 1997). Long-term employees gain expertise regarding customer needs (Reichheld 1996). Employees who are entrusted with more control over their work have higher levels of commitment, and the costs of managing them are lower (Pfeffer 1998). Delivery of superior value by such employees yields greater customer loyalty (Reichheld 1996). A five percent increase in customer retention, for example, results in much stronger growth. In addition, profit per customer increases each year, in some cases starting from a negative profit in the first year. These effects also makes customer retention very valuable. In addition, if managers care about their constituencies, they are attuned to changes in market dynamics and take effective action promptly (Kotter and Heskett 1992). Also, responsible companies may experience reduced costs of approval for sites by communities and government officials, or avoid costs resulting from fines for environmental problems (Waddock and Graves 1997). In addition, if a firm tries to lower its implicit costs in areas such as product quality through socially irresponsible actions, it may cause certain stakeholders to doubt its ability to honor its obligations, resulting in higher explicit costs such as payments to bondholders (Waddock and Graves 1997). (See also McGuire, Sundgern and Schneeweis 1988; Ullmann 1985.)

It has also been argued by Jones (1995) that stakeholders are often able to detect companies that are likely to cheat them. He builds this argument by considering the work of

Robert Frank in *Passions within Reason: The Strategic Role of the Emotions* (1988). According to Frank, people use two "pathways" that enable them to form a judgment about the ethical tendencies of others. Those are "sincere-manner" and reputation. Sincere-manner is based on assessment of a range of physical signs, such as voice pitch and eye movements. In addition, those who cheat will be caught often enough that they will tend to develop an unfavorable reputation. As a result, it is often possible to detect cheaters in real-world situations. Jones extends this analysis to corporations. He notes that some of a company's decisions will be plainly visible, such as layoffs, and will thus directly affect reputation. He also argues that the top management of a company will set rules and provide incentives that will affect the behavior of employees such as salespeople and service personnel. In addition, top managers will tend to hire people with similar values. As a result, outside stakeholders will often be able to determine from the sincere-manner cues of whichever company personnel they deal with whether the company is likely to deal with them fairly. Consequently, according to Jones' analysis, the benefits of an ethical strategy suggested by his discussion of sincere-manner and reputation, and of game theory (which will be considered in a later section), also accrue to corporations.

So the preceding body of theory suggests that CSR increases loyalty of key stakeholders. That contributes to a self-reinforcing system of positive effects, as shown in Figure 1. Articulating a responsible purpose, made more credible by sincere-manner cues, contributes to a positive reputation. That tends to increase loyalty of employees, increasing their motivation to make worthwhile products. Such products promote customer loyalty, which boosts profits. Strong financials demonstrate that the responsible purpose is financially viable, which reinforces the system. There are other influences and feedback loops noted in the above literature; this diagram is intended only to illustrate the kinds of mechanisms involved (see Reichheld 1996: 20;

Kotter and Heskett 1992: 54, 57 for other illustrations of such a system).

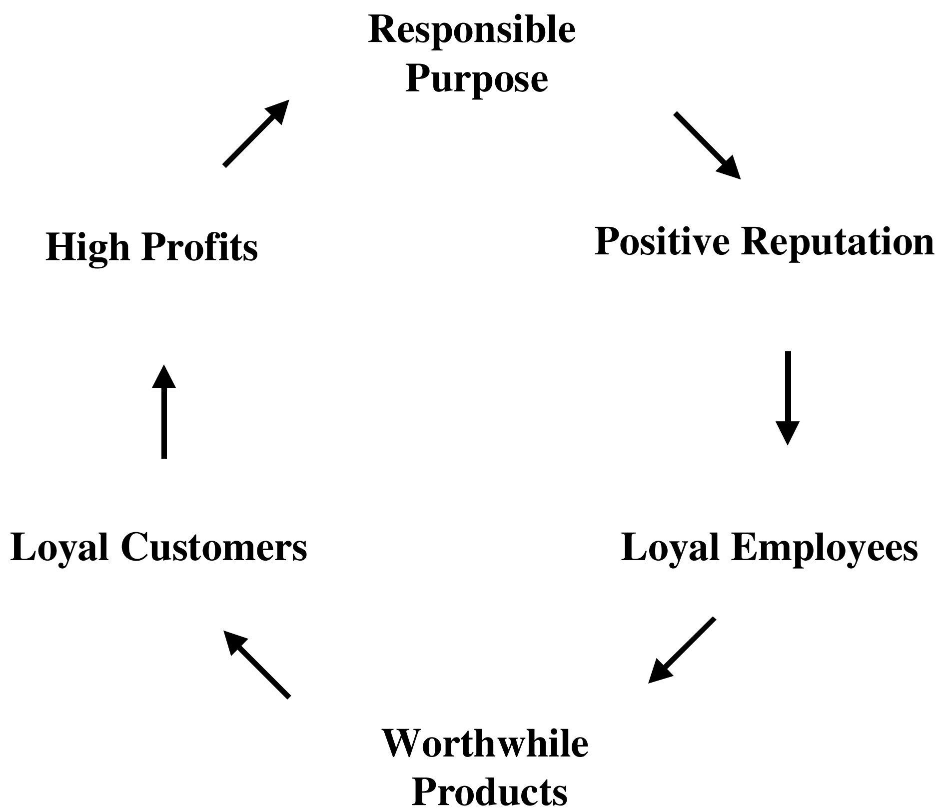

Figure 1. Simplified Illustration of a Mechanism by which Corporate Social Responsibility (CSR) Produces High Financial Returns.

Friedman: Champion of Irresponsible Capitalism?

We next turn to the idea that CSR might produce lower financial returns. It proves difficult to find theoretical explanations of why irresponsibility should be expected to produce higher profits. A prime example of that difficulty is found in closely examining the thinking of Milton Friedman. Attention is often focused on his statements to the effect that the responsibility of a corporation is "to make as much money as possible" (1970: 3). What is frequently neglected is the qualifications he makes to such statements: "while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom" (1970: 33), and "so long as it . . . engages in open and free competition, without deception or fraud" (1982: 133). He also argues that in some situations CSR may actually improve profits. As an example, he says that it may be in the long term interest of a company in a small community "to devote resources to providing amenities to that community . . . That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects" (1970: 124). He therefore does not feel he can call on corporations to refrain from such activities. However, he is unenthusiastic about such programs, even if profitable, because he is concerned about corporations encroaching on individual freedom (1970: 124).

Nevertheless, none of Friedman's arguments in fact make a case that corporate social irresponsibility produces higher profits or is desirable. In effect, he actually is advocating a substantial degree of *de facto* CSR. Carroll (1999) divides CSR into a hierarchy of four components: economic, legal, ethical, and discretionary. By saying that the firm must maximize profits while obeying the law and following the ethical customs of society, without deceit or fraud, Friedman is covering the first three of these. Friedman clearly would reject some of the discretionary activities mentioned by Carroll--such as philanthropic contributions, training the hard-core unemployed, or providing day-care centers--unless they contributed to profits. But since Friedman says that such programs in fact may improve profits at least in some instances, as noted above, he even reluctantly concedes that the firm may do them in those cases, although not in an attempt to cure social ills (1970: 124).

Therefore, contrary to what many believe, Friedman does not actually develop a theoretical basis for expecting that in order for corporations to maximize profits they must behave irresponsibly toward society.

How Machiavellian Was the Thinking of Machiavelli?

Although he was not writing about business, Machiavelli nonetheless is being widely studied in an attempt to gain insights into how to conduct it. More than 10 books, dozens of manuals, and a number of articles have applied his ideas to business, and numerous universities and business schools include study of his thinking (Galie and Bopst 2006). Machiavelli does clearly advocate certain irresponsible practices. For example, he suggests ruthlessly conquering rival states, using intimidation, and appearing "merciful, truthful, humane, sincere and religious," and actually having those virtues, but being prepared to abandon them when it appears expedient (1532/1992, Chapter 18: 48, 54). However, he also advises against stealing the property of citizens, because arousing their hatred would encourage conspiracies against the ruler (1532/1992, Chapter 17: 45-47). He portrays the parliament of France as useful for maintaining the security of the king against the nobles. He also says it functions to "hold down the nobility and favor the commons" (1532/1992, Chapter 19: 51-52). In that way, the king avoids the hatred of the people. He even notes with approval that the French parliament had independent authority to act in ways that kept the king, not just the nobles, from harming citizens (1531/1998). He also presents the idea that a republican form of government, in which the people can freely debate issues, is better than any type of monarchy (1531/1998; see also Nederman 2000). For example, it is easier to persuade a single ruler to make a disastrous decision than it is to persuade the population at large, according to him, so better decisions will be reached more often.

Thus Machiavelli advocates a cynical and ruthless strategy that nonetheless has major elements of enlightened self-interest which are often unrecognized. But his work relies primarily on assertions, his own experience and historical examples rather than discussion of theoretical mechanisms. Also, while he does assert that the cost of oppressing the citizenry exceeds the benefit to a leader, he does not seem as concerned about the cost side of conquest. These include, for example, the costs of maintaining a larger army and of reducing the labor force for agriculture and the like. They also include the cost of stirring up enmity among other nations. Thus, Machiavelli's work on close examination leaves many important theoretical and practical questions unanalyzed.

Gaps in the Theoretical Literature

Where, then, do we find ourselves in terms of existing theory regarding the CSR-CFP relationship? The literature does provide a coherent account of the advantages CSR has in producing high returns. It has little to say about the costs involved, however. It clearly takes an investment of money and management attention to build stakeholder loyalty. For instance, there is a cost side to resisting layoffs in a downturn, and providing redeployment or substantial severance packages if downsizing cannot be avoided. Similarly, an investment is required to treat or reuse waste products rather than dumping them in a river. It is reasonable to argue that these kinds of costs can be more than repaid through the improved productivity and other means described by the above theorists. But the above literature does not delve into what the costs are and why exactly they should be less than the returns. The literature arguing for higher CSR returns does, however, describe certain costs of CSI. But it provides little in terms of detailed analysis.

On the other hand, it is difficult to find a good theoretical discussion of financial advantages of CSI. That is actually not very surprising. Few people probably are anxious to go on record as advocating stealing, lying and similar tactics. Machiavelli is a rare example of a writer who would suggest such ideas, despite the fact that he himself said it is better for the crafty leader to put on a front of rectitude. But he does not discuss theoretical mechanisms.

However, the actions of many businesses, not just in the scandals of recent years but throughout the history of business, clearly demonstrate that some people employ irresponsible strategies. It is hard to imagine that they are doing it without thinking it will produce greater wealth. So in the next section, the dots will be connected to show what implicit theory they probably are operating under.

Why Might It Be Supposed that CSI Produces Higher Returns?

As discussed above, it has been argued that irresponsible firms suffer from various serious risks and other costs. For example, their stakeholders may try to withdraw from doing business with them, or attack them using lawsuits, criminal prosecution, and other measures. These are valid points. But what is missing from this picture is a clear description of why the strategies of CSI firms might have financial advantages, and of what techniques they might use to reduce their risks and other costs.

It is not difficult, however, to describe these points. In terms of advantages, they may for example influence social pressures so that customers find it difficult not to use their products. They also are able to get inflated prices in certain situations, using criminal fraud, kickbacks, price fixing or bid rigging (Davidson and Worrell 1988). In addition, some companies have marketed dangerous products after doing a cost-benefit analysis suggesting it would be more profitable than correcting the problem (Bromily and Marcus 1989). They may reduce costs through tax evasion, irresponsible handling of waste products, and similar tactics.

To reduce their risks, they may aggressively defend against lawsuits in an effort to make it too expensive for most stakeholders to pursue legal redress. They may also use bribery, fraud, obfuscation and the like. Such techniques may also enable them to remain in business for as long responsible companies, on average.

An example may help to clarify this picture. Consider a company that has achieved very strong financial results over a period of many years using what are now widely recognized to be irresponsible means, Altria, formerly Philip Morris (Collins and Porras 1994). For many years, it managed to portray itself as a perfectly responsible firm, thus reducing the risks and other costs of its mode of operating. In more recent years, with its tactics revealed, and suffering attacks in the U.S., it has aggressively and profitably expanded in non-U.S. markets (Sellers, Boorstin and Tkaczyk 2003). Management of this company claimed to love cigarettes and to believe they helped make life worthwhile. They used that ideology, along with high compensation, to motivate employees. They denied certain risks of tobacco for many years, and used advertising and other techniques to help create the feeling that is was socially unacceptable not to smoke. Their profits were high, helping to reinforce the system.

Thus, like responsible companies, irresponsible companies have techniques that can form a self-reinforcing system. In Figure 2 certain components of such a system are shown. As with Figure 1, there are other possible components and feedback loops. The diagram is only designed to illustrate the kinds of techniques and interrelationships that can be involved.

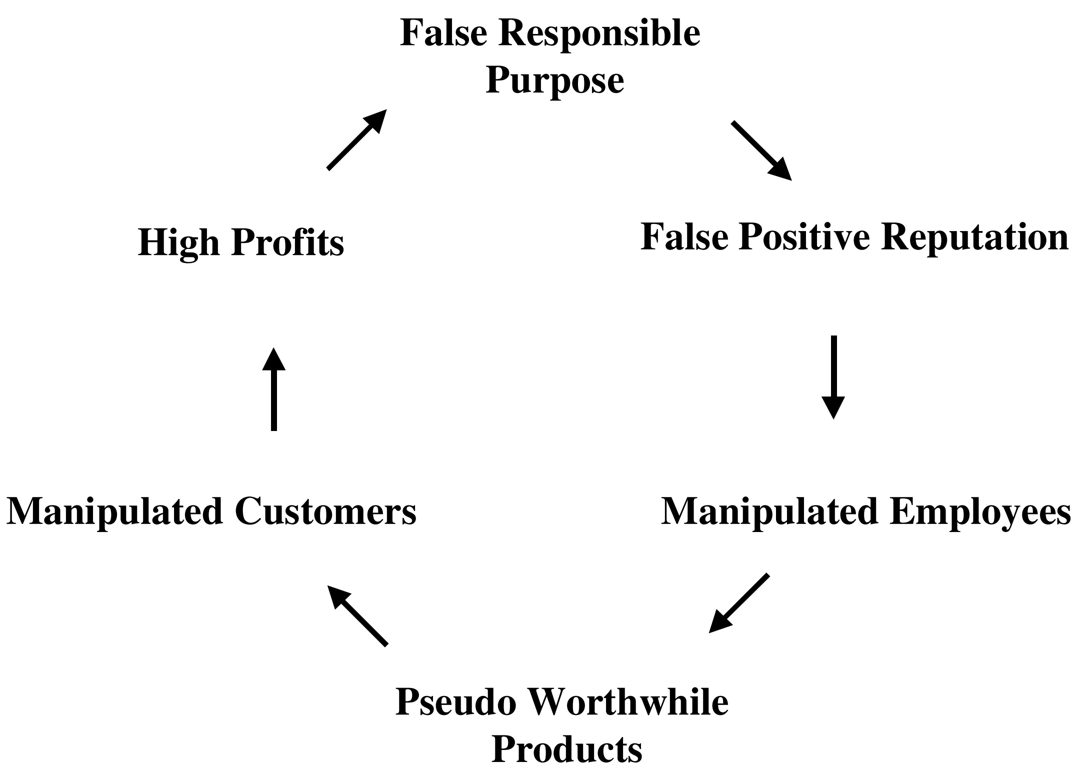

Figure 2. Simplified Illustration of a Mechanism by which Corporate Social Irresponsibility (CSI) Produces High Financial Returns.

So it is now clear that both CSR and CSI have both major advantages and costs. That makes it considerably less clear which of them should be expected to produce higher returns on net. In the next section an answer to that question is sought.

Insights from Evolutionary Game Theory

Success of Strategies in Games and in Business

In addition to his other arguments, which were reviewed above, Jones (1995) discusses game theory, specifically using Axelrod's (1984) work on the Iterated Prisoner's Dilemma, in building his case. Axelrod found that players, in the form of computer programs, achieved the best results if they used a "Tit-for-Tat" strategy, under which Player A cooperates in the first round with Player B, then cooperates or not in each later round, depending on what Player B did in the round before. Using this strategy, a player minimizes costs of dealing with non-cooperators, and maximizes rounds in which both parties get high returns. These results, according to Jones, suggest that using a strategy of cooperation produces lower costs.

Jones views these results as instructive, but points out several limitations. In actual business situations, as opposed to computer simulations, not all interactions are repeated. Also, in agency situations, one of the main problems is that it may be difficult to determine whether the agent has been acting opportunistically or cooperatively in important areas. However, as discussed above, Jones argues that in real life, stakeholders are often able to detect companies that are likely to cheat them. The implication is that the same kinds of advantages found in the Iterated Prisoner's Dilemma games can be and are realized in actual transactions among people.

To assess this claim, it is necessary to understand the nature of such games. The results of simulations in the field of evolutionary game theory depend on the strategies allowed, the points given to players given various combinations of strategies (e.g., 10 points to Player A and 1 point to Player B if A defects and B cooperates), and other parameters set by the researcher. The outcomes have proved to predict behaviors of simpler organisms such as insects very well in a variety of cases. However, even with various refinements, games do not do as good a job of reflecting the more complex dynamics of higher animals and human beings (Weibull 1995: ix-xi). And of course, the way to decide if a game is accurate is to compare the results to what happens in real groups of animals and people. Yet it is not always completely clear in real social organizations what proportions of people or animals are cooperating, cheating or the like, whether they are acting for selfish or altruistic reasons, and to what degree they change strategies. So in some cases games have given clearly accurate predictions, and in others the results have been less clear cut (see Gintis 2006, for an example of the controversies that arise in this area.) Nevertheless, games are often useful for at least suggesting insights into the social dynamics of animals and human beings, even if they do not provide definitive proof.

In the Iterated Prisoners Dilemma described by Jones, Tit-for-Tat proved to approximate an evolutionarily stable *strategy*, meaning it became the dominate strategy and resisted encroachment once it became most prevalent (Axelrod 1984). That was a result of the payoffs and other parameters set for the series of games. But in other simulations with different parameters, strategies such as cooperation and defection have produced equal benefits to the players involved (e.g., Maynard Smith 1982; Weibull 1995). In a simulation, a particular strategy may offer superior benefits with few players using it, and decreasing benefits as more players adopt it until, at a certain percentage of the population, it reaches a point of equal benefit to an alternative strategy. It then exists in equilibrium with the other strategy, that is, in an evolutionarily stable *state* (Maynard Smith 1982). (When two or more strategies interact as just described, the situation is called an evolutionarily stable state. When a strategy becomes even more successful as it gains share until it dominates other strategies, and resists encroachment, it is called an evolutionarily stable strategy.) A recent study had human subjects (as opposed to computer programs) interact with one another via computer (Kurzban and Houser 2005). Rather than the more common two-player games, the researchers created a situation involving multiple players. They found that the game still reached an equilibrium with equal pay-offs for players adopting various strategies. In this study, the equilibrium included 13% cooperators, 63% reciprocators, and 20% free riders. So experiments using games do not always suggest that cooperation will produce higher payoffs. Also, it is clear that companies are able to mask cheating behaviors in many instances, as we have seen. So neither the Iterated Prisoners Dilemma nor sincere-manner and reputation factors actually provide a good basis for thinking that CSR must produce higher financial returns.

But insights from game theory nevertheless can help in developing a new way of thinking about the dynamics of real situations. Consider the interplay of responsible and irresponsible firms in the world. Suppose there were a situation with few irresponsible companies. There would be many opportunities to use irresponsible techniques to extract money and other advantages from other firms, from customers, and from other stakeholders. The CSI firm could choose those that were most lucrative. At that point, it would be logical to expect irresponsible companies to make higher profits than responsible firms. Over time, other companies would choose to exploit the situation, leading to an increased proportion of CSI firms. There would therefore be greater competition for the most lucrative irresponsible gains. At the same time, responsible companies and customers would strengthen their defenses against the increasingly common irresponsible practices. As a result, the financial returns of CSI would diminish. Once the financial returns of CSR and CSI reached equal average levels, there would be no financial incentive to switch from one to the other. Thus, CSR and CSI would remain in a stable state at the same average level of financial returns.

Parallels in Nature

These dynamics do operate in just this way in other situations in the real world. To help in demonstrating the reasonableness of this way of thinking, it will be worthwhile to consider examples of such situations. Therefore, two illustrations observed in other species will be presented.

First, consider the bluegill sunfish (*Lepomis macrochirus*), a popular North American game fish (Maynard Smith 1982: 89-90). One segment of male bluegills builds nests which form a large colony in which females lay eggs. Each male fertilizes the eggs in his nest and then guards it. Another segment of males, however, sneaks into nests of other males to fertilize eggs. They use techniques such as darting into and out of the nests, and taking on the coloration of females, to accomplish their objective. The two segments are forced to an evolutionarily stable state. For example, as the proportion of freeloading bluegill sunfish in a population rises, there is increasing competition for nests of constructive males to sneak into. The success of the freeloading strategy diminishes as a result. Consequently, the two strategies reach an equilibrium with some 79% adopting the constructive strategy and 21% the freeloading approach.

Next consider the dynamics of lions (*Panthera leo*) and elephants (*Loxodonta africana*). While elephants are formidable adversaries, it is nonetheless true that in some environments lions do kill a certain proportion of elephants, primarily calves (Joubert and Joubert 2000; and Loveridge, Hunt, Murindagomo and Macdonald 2006). These competitors are forced to an evolutionarily stable state as well. Suppose that the proportion of lions, for example, were to rise. In that case, there would be increasing competition among the lions to kill a diminishing number of more susceptible elephants. The average success of the lions would therefore decrease. Less adept lions would not manage to kill enough elephants even to survive. By that means, the equilibrium would be restored. This is a simplified example, but the same dynamic leading to an equilibrium applies if the complete set of carnivores and herbivores in an ecosystem is considered.

The strategies involved also parallel those of firms that were reviewed above. Like CSR firms, constructive male bluegill sunfish achieve their success by responsible behaviors such as building nests. And, like CSI companies may do, freeloading bluegills disguise their true nature and use stealth to deprive others of their earned rewards. Elephants cooperate in taking care of their needs in a way that does not involve killing other animals. With lions, the picture seems less clear. The lions do help to reduce the number of less adept elephants, for example, which strengthens the overall group. The discussion section will consider that type of issue further. But at the same time, killing elephants is clearly terrifying and excruciating for the elephants (see Joubert and Joubert 1994). And lions do use techniques such as deceit and, in effect, stealing of the resources of the elephant in the form of its body. So the analogy is a good one. It is reasonable, then, to think that these kinds of situations are instructive about the dynamics of firms. They do not prove the point, but do allow one to see more clearly that the dynamics of CSR and CSI firms probably produce an equilibrium with equal average returns.

Equal Payoffs despite Unequal Populations

The observations above suggest equal payoffs for competitors such as lions and elephants. They also might suggest that there would be fewer carnivores than herbivores. That implication must be approached with caution, however. Carnivores, unlike participants in the Kurzban and Houser (2005) simulation discussed earlier, can, in effect, force their opponents to "cooperate" by using stealth, speed and the like to obtain their resources despite vigorous efforts to withhold them. At the same time, competitive species such as elephants and lions co-evolve, and develop adaptations that allow many individuals to withhold their resources for long periods. Otherwise, they would not be living long enough to reproduce. So the ratio of carnivores to herbivores may or may not be as low as suggested by results of a game. Nevertheless, because all herbivores combined must produce enough biomass and energy to sustain not only their own activities but also those of carnivores, there must be greater quantities of herbivores. That, however, does not mean the carnivore is less successful materially. Any individual carnivore could expect as much material success as an individual herbivore on average.

A similar argument applies to irresponsible businesses: Even if there are fewer of them, the individual irresponsible company can expect material returns equal on average to those of a responsible company.

Intermediate Levels of Responsibility

It also is important to note that this dynamic applies to a range of strategies. A given company can devise a financially successful strategy involving techniques at various levels of responsibility. For example, an automobile company described by Bromily and Marcus (1989) marketed a dangerous product because it would be more profitable, yet it was producing an overall line of products that was useful, on net, to society. It may be difficult to decide what a given firm's net level of responsibility is, given such complexities, as will be discussed later. But it nevertheless is reasonable to expect that an evolutionarily stable state exists that includes companies using a range of such strategies. In the manner described earlier, if any given level of responsibility had higher returns, it would attract more competitors so that returns would be forced to equal levels. So this dynamic applies to companies at intermediate levels of responsibility as well, even though, for simplicity, we often refer just to responsibility and irresponsibility.

Do these Observations Apply to Human Beings?

It still might be objected that what we see in other species cannot be applied to human beings. So that objection will be considered further in this section. There has been considerable discussion of the implications of what can be observed in nature within the field of philosophy, and an increasing amount within the management literature (e.g., Frederick 1995; Freeman and Werhane 2004). There are numerous controversies about how observations from nature can and cannot be applied to the conduct of modern human society. The purpose of these parallels is simply to assist with building a conceptual context for the theory of equal returns. So all the additional philosophical topics surrounding them do not need to be considered.

It will be necessary to briefly consider one such topic, though. Examining these parallels raises complex philosophical questions about the nature of good and bad. It is important to arrive at a definition of these terms that can be applied both to human and non-human life in order to justify drawing parallels between the material effectiveness of good and bad for non-humans and for humans. As a result, it is relevant to briefly consider that issue.

There are a number of terms that can be used, including good and bad, morality and immorality, good and evil, right and wrong, virtue and vice, responsibility and irresponsibility, and the like. Each of these carries somewhat different connotations. The following discussion uses the terms "good" and "bad" to refer to the range of these types of distinctions. Definitions of these terms will be developed with reference to secular moral philosophy.

The three major traditions in Western secular moral philosophy stem primarily from Aristotle (Anscombe 1958; Aristotle 1987), Kant (Bowie 1999; Kant 1785/1984), and Mill

(1863; see also Broome 1991, and Sidgwick 1874). While there are many other important philosophers, in both the realms of secular and theological moral theory, it is possible to gain sufficient insight for the purposes of this discussion from considering the philosophies of these three.

All three of these philosophies suggest that good actions are ones that promote the individual's happiness or pleasure, including satisfactions from exercising higher capacities, in a way that benefits others as well, or at least does not harm them. Bad actions involve pursing one's own ends at the expense of others. Proponents, such as Kant (1785/1984), of duty-based, or deontological, moral theories assert that happiness can not be used as the motivator for doing right, or as the means of judging whether an action is good or bad. Kant nevertheless sees greater happiness or pleasure, properly understood, for both the individual and others, as an essential outcome of good actions in aggregate. (Because some might dispute the idea that Kant held such a view, evidence of it is provided in Note 1.) Thus, despite major differences from Aristotle or Mill, Kant's thinking does share the suggestion that good actions *tend* to benefit, or at least not harm, others, while bad actions *tend* to entail seeking one's own benefit in a way that is detrimental to others. This conception of good and bad is perfectly reasonable. So it is suitable to use in considering whether the parallels we have drawn are reasonable.

It will not be necessary to resolve the debate about the degree to which other species act in moral or immoral ways in the sense that human beings do as they use the above two approaches (see Flack and de Waal 2004, for a discussion of this debate). For example, as discussed above, the study of game theory often uses computer programs to simulate the success of strategies such as reciprocal altruism when pitted against other strategies (e.g., Axelrod 1984; Weibull 1995). These simulations help scholars develop new perspectives on the moral behavior of human beings, despite the fact that the participants in the games may not be conscious human beings or even animals but frequently are instead computer programs. And it is readily apparent that human beings and animals both use the approaches of seeking their ends using means that are beneficial or neutral to other sentient beings, or that harm them. Thus it is justifiable to draw parallels between the dynamics of animals and of humans that involve using these approaches.

Conclusion Regarding Returns of CSR and CSI

The body of theory discussed earlier arguing that CSR produces higher returns, then, presents logically sound mechanisms for CSR to contribute to strong financial success. But, as we have seen, there are also approaches that enable CSI to get high returns. And it can now be clearly seen that it is most likely the average returns CSR and CSI are equal. That is because, as discussed above, if returns of one or the other rose, it would attract additional competitors until an equilibrium with equal returns was restored.

Analysis of Empirical Research

As mentioned earlier, the empirical research literature as a whole seems to suggest that CSR leads to better financial performance, on average. To address the objection that these findings disprove the theory of equal returns, then, it is essential to examine that research. First, problems involved in doing research in this area will be considered. Next, a discussion will be included regarding the question of whether there are short-term advantages of CSI counterbalanced by more frequent crises, even if, on average, financial results of CSR and CSI are equal. Then an explanation will be given of why studies to date, in aggregate, show a positive correlation between CSR, as imperfectly measured, and financial success, when in fact actual CSR probably does not yield better average financials. As part of that discussion, two studies that examine the effect of R&D investment on the CSR-CFP relationship will be analyzed.

Problems of Measurement and Inference

Many scholars and others working in the field have expressed concern about the challenges in this area of research (see for example Griffin and Mahon 1997; Lydenberg 2000; Margolis and Walsh 2003 and 2001; Preston and O'Bannon 1997; Roman, Hayibor and Agle 1999; Waddock and Graves 1997; and Wood and Jones 1995.) That is most likely a key reason that over a span of many years at least 127 studies have examined the issue using increasingly sophisticated statistical analyses, and increasingly systematic measures of CSR, notably derived from the Kinder, Lydenberg, and Domini (KLD) database (Margolis and Walsh 2003).

The most important problem confronting research in this area is that it is difficult to judge CSR. Many companies are reluctant to disclose all of their practices. Even if one knew everything they were doing, it often would be problematical to weigh their actions, as noted above. For example, is a company that treats employees well but sells harmful products better or worse than one that mistreats employees but produces beneficial products? While in some cases, it would undoubtedly be clear that the good activities far outweighed the bad or vice versa, that would not be true in many other cases. The answer to such a question becomes even less clear when there are scores of CSR dimensions, and it is unclear how companies under comparison are actually performing on many of them.

Another problem is with control variables. Studies conducted to date control for various combinations of variables, or do not use control variables at all (Margolis and Walsh 2001).

Some studies, for example, control for industry. Yet in some cases industry could be an intrinsic aspect of CSR. That is, the choice to sell a product such as cigarettes is itself irresponsible, for example. Yet if a study controls for industry, and there were a profit advantage that came from that irresponsible practice, it would be removed or largely removed by subtracting out the average profit advantage of the tobacco industry. Thus, selecting variables to control for is not always a clear cut decision. For example, there are advantages to controlling for industry, since various industries have differing cost structures and the like, yet there are also serious disadvantages.

There are also problems with financial measures. For example, the recent corporate scandals have underscored that fact that companies can appear to be performing better financially than they are for a number of years through dishonest accounting.

A research approach that illustrates a number of the issues involved in doing research on this question is one of trying to determine the direction of causality. Of the 127 studies examined by Margolis and Walsh (2003), 22 included an analysis in which CSR was treated as a dependent variable, with financial performance viewed as the independent variable. Of those, 16 found a positive relationship. That can be interpreted using a slack resources theory, under which companies with stronger financials are more responsible because they can afford to be. Thus, a company that is doing well financially in year one will tend to spend more on CSR, resulting in high CSR in year two, according to this perspective. To assess this view, consider Company A which has high financial returns and high CSR ratings in both year one and year two. In that case, there clearly would be a high correlation between its high financials in the first year and its high CSR ratings in the next. So the finding of high financials followed by high CSR may reflect a situation in which many companies tend simultaneously to have both high financial returns and high measured CSR over time. It may not be driven by companies doing well today being able to afford to do good tomorrow.

This perspective also illustrates another difficulty with measuring CSR. Suppose a company has very strong CSR ratings and high financial returns at a given point. It then encounters financial problems in an industry downturn. As a result, it cuts back on certain important spending on key stakeholders. Perhaps it cuts pay and reduces benefits for employees, reduces payment terms to suppliers, reduces customer service, or the like. Its measured CSR, even if limited to key stakeholders, could well go down somewhat, even if it were making vigorous efforts to treat all stakeholders as fairly as possible under difficult circumstances. It would be hard to maintain that it was actually less responsible at that point than it was when the financial sailing was smoother. So even if it is true that weaker financial performance in a given year correlates with a reduction in measured CSR the next, it would not be clear that actual CSR is partly caused by slack resources. Yet such an effect could also contribute to a correlation between CSR as measured and financials, with CSR viewed as the independent variable. Companies experiencing financial challenges may tend to get lower CSR ratings even if they are actually as responsible as when they have more financial resources.

Such problems cannot be removed in a meta analysis. Such an analysis fundamentally asks whether, taking into account the sample sizes of the studies it considers, there is a statistically significant correlation between CSR as measured and financials across all the studies. Orlitzky, Schmidt, and Rynes (2003) conducted a meta analysis of 52 studies that had the necessary statistical characteristics for inclusion. They found that the data as a whole show a positive correlation between CSR as measured and financial performance. Given that some studies have shown a positive correlation and others have not, that is a substantial contribution to understanding the overall results of numerous existing studies. None of those analyses, though, can get into the underlying studies and eliminate, for example, the problem of determining how responsible a company actually is. Thus, a meta analysis does not eliminate all of the problems that exist in the studies it analyses. As a result, the finding of a correlation between CSR as measured and financials through meta analysis does not prove that actual CSR is driving better financial returns.

Long-term vs. Short-term Performance

Next, we will consider the question of whether CSI firms perform better in the short-run, but suffer compensating losses in the long-run. There is some evidence based on modeling suggesting firms that attempt to obtain the greatest possible profits have shorter lives (Dutta and Radner 1999). It could be argued that CSI firms make the most aggressive attempts to maximize profits. It might be, then, that during non-crisis phases of business, CSI firms actually outperform CSR firms in financial terms. A shorter life span (or more frequent crises) might counterbalance that outperformance over time, such that the long-term profitability of CSI firms might be equal, on average, to that of CSR firms. The non-crisis outperformance of CSI firms could be masked by CSI firms disguising their irresponsibility. Recall the CSR-related accolades of Enron before the scandal occurred (Moskowitz 2002; Waddock 2002). See below for more on management of apparent CSR.

On the other hand, the longevity of cigarette companies and other irresponsible firms, and the strong ongoing profits of historically highly responsible firms such Hewlett-Packard Company starting early in their existence (Collins and Porras 1994) raise doubts that non-crisis outperformance exists. In addition, the earlier discussion of reasons that CSI firms may be able to manage risks as effectively as CSR firms also calls into question the idea of a higher incidence of crises in CSI companies. For example, as noted earlier, Altria achieved very strong financial results over a period of many years (Collins and Porras, 1994; Sellers, Boorstin and Tkaczyk, 2003).

Apparent CSR and Management Skill

Next a conclusion will be drawn regarding why the research to date as a whole suggests a positive correlation between CSR as measured and financials, when there may be no true net difference between the financial impacts of actual CSR and CSI.

The most important explanation may be the following: CSR firms that are managed intelligently and CSI operations managed intelligently may both manage apparent CSR skillfully. CSR and CSI firms with less management ability may both tend to manage apparent CSR with less skill. That could contribute to an seeming causal relation between CSR and better financials that was instead a result of partial collinearity--a tendency of one variable to rise as another one rises--between apparent CSR and adaptive and intelligent management.

By referring to apparent CSR, we do not mean to imply that all constructive characteristics an irresponsible company seems to have are necessarily illusory. CSR rating organizations such as Kinder, Lydenberg, and Domini (KLD) use press articles, reports of regulatory actions, and other sources as inputs in identifying strengths and concerns regarding a company's approach to each of its various stakeholders (Waddock and Graves 1997). If KLD or another observer finds that a company has child care benefits, or has found beneficial ways to reuse pollutants, those are not illusions. But a given company may have a range of genuinely constructive programs, and yet also be pursing highly irresponsible activities behind the scenes.

That was made more obvious by the recent scandals involving companies such as Enron (Moskowitz 2002; Waddock 2002). It had a range of programs that actually were beneficial to key stakeholders in important ways. Yet it also was stealing from investors and employees. Its hidden irresponsible activities far outweighed its visible positive contributions. On balance its real CSR was very low, even though its apparent high CSR was based on a variety of visible constructive activities that often were real and important. Clearly, an irresponsible company can have a range of useful programs and draw attention to them in order to better hide very harmful activities. A more skillful CSI company will tend to do a better job than a less skillful one of using such techniques to seem more responsible overall than it is. Also, a more skillful CSR company will tend to do a better job than a less skillful CSR company of structuring and communicating its real constructive activities so that its apparent CSR level gives it optimal credit.

In addition, when CSI firms go into crisis, they may be prone to exposure of their hidden negative characteristics. That also would contribute to a seemingly positive effect of CSR on financials. That is, badly performing CSI firms would be added to the pool of firms receiving lower CSR scores, while better performing CSI firms would continue successfully masquerading as better on CSR than they were, adding to the somewhat better performance of apparent CSR firms.

The preceding discussion also is not meant to suggest that that apparent CSR as measured using data from sources such as KLD does not reflect real CSR to a considerable extent. But even if company that is actually very irresponsible usually is not able to achieve a sterling CSR appearance, it may manage to seem much more responsible overall than it is. Again, some very irresponsible firms, such as Enron, have even managed to seem exemplary in terms of apparent CSR. Similarly, a very responsible company, even if not very skillful, may be unlikely to suffer from very low apparent CSR based on KLD ratings or the like. But it may not get as much credit as a more skillful CSR company. Even granting that CSR ratings give some indication of how responsible many companies are, though, does not negate the argument that what seems, on average, to be a positive effect of CSR on financials might really be caused by more skillful management (cf Jacobson, 1990).

Including R&D Investment in the Analysis

These effects also could help explain results of a study on R&D investment as a confounding variable. McWilliams and Siegel (2000) conducted a study in which they controlled for R&D and industry. They found that removing the effects of differences in R&D expenditures alone reduced the apparent impact of CSR on financials to a level that, while still positive, was not statistically significant. Removing the effects of differences in both R&D and industry appeared to reveal a slight negative impact of CSR on financials, although it also was not statistically significant. As discussed earlier, controlling statistically for industry may do more harm than good. In addition to the problem with industry noted before, another relevant concern is the following: It is possible that skillful managers gravitate towards industries with higher profit potential, and then tend to bring out that potential. As noted before, such skillful management may also be used to increase perceived responsibility of both CSR and CSI firms. Subtracting out the effects of industry might then subtract out a part the effects of stronger management skill.

In addition, both skillful CSR companies and skillful CSI companies disguised as responsible may choose to invest more in R&D. That could occur partly because they recognize its value more clearly, and partly because their adept management in other areas results in their having more funds to invest. Less skillful CSR and CSI companies might both invest less in R&D, and seem less responsible. It is not surprising that R&D would be associated with stronger financials. In the early years of the twentieth century, economist Joseph Schumpeter (1934) described the key role of innovation in driving profitability, and contemporary research supports a strong association between R&D and financial outcomes (see McWilliams and Siegel 2000). Such an association could occur not only because of the prices that innovative products can command, but because skillful companies are more likely to get other things right as well. One of those things of course is intelligent management itself. That is, R&D may serve as a marker not only for various other specific activities, but for the degree of acumen applied to managing them. By subtracting out the effects of R&D, then, one also may be subtracting out much of the effect of other beneficial activities that are collinear with R&D, including skillful management.

So the actual situation driving the results of the study may be that skillful companies, whether CSR or CSI, tend to have somewhat higher apparent CSR than their respective less skillful counterparts, and tend to invest more in R&D and in general to use their resources more intelligently so as to achieve stronger financials. It is worth noting as well that higher investment in R&D *per se* is not a CSR characteristic. For example, an irresponsible company may use R&D to develop products that have harmful effects if a cost-benefit analysis suggests it will be financially advantageous (cf Bromily and Marcus 1989). Thus, this study is consistent with the theory of equal returns, although for reasons different than those suggested in the article.

Given the findings of the preceding study, the authors of a recent study decided to conduct further analyses (Hull and Rothenberg 2008). The study had a relatively small sample of 69, obtained by selecting those companies in the KLD and Compustat databases that had no missing data. Thus, it may not approximate a random sample. ROA was the outcome measure, but the asset bases of industries vary widely, and book value matches market value of assets much more closely in some types of companies than others, meaning that comparisons across companies could be inaccurate. They examined the interaction of CSR with innovation (defined as R&D spending) and differentiation (defined as advertising intensity, i.e., advertising spending divided by revenue). Among more innovative companies, CSR had "a more positive impact on financial performance" (p. 786). Among less innovative companies, the association was apparently neutral or negative, although that is not stated explicitly. Similar results were found for differentiation. Some companies can be innovative without high R&D spending, for example through supply chain management, and some with high R&D budgets may produce little innovation. Similarly, some companies, especially in business-to-business segments, can use PR or trade advertising to achieve differentiation despite low advertising budgets, and some with high budgets may achieve little differentiation. So it is not clear to what degree these measures distinguish innovative or differentiated companies from those that are not.

The results are explained on the basis that, for example, firms selling commodity products will have more to gain by differentiating themselves or innovating based on CSR than those who are already differentiating themselves via extensive advertising or are innovating via R&D. But more differentiated or innovative companies include clothing companies, high tech companies, automobile companies, restaurant chains, pharmaceutical companies, and others who are highly visible to the general public and governments. Also, it is a constant struggle to maintain an edge in innovation or differentiation given the vigorous efforts of competitors to do the same in such businesses. Thus, it does not seem obvious that such companies actually should be expected to benefit any less from a strong CSR reputation than commodity companies.

If these findings nevertheless are accurate, the implication is that if there is a positive effect of CSR on financials, it occurs largely, for example, in commodity companies via improving their reputations for CSR It probably could not be due to other CSR effects, such a customer and employee loyalty, enhancing financials more than the techniques used by CSI companies. That is because there would be no reason to expect that attracting top employees and building their loyalty, for example, would be less valuable to the company attempting to develop innovative products or to differentiate itself than to a commodity company.

In any case, this study falls in the category of those with mixed findings about the CSR-CFP relationship. Of 109 existing studies treating CSR as the independent variable, 20 reported mixed findings, 28 found non-significant associations, and seven found negative relationships (Margolis and Walsh 2003: 274). It is not surprising that the findings of studies would be inconsistent given the methodological problems of CSR-CFP research discussed above. So it is certainly possible that the results of this study are due to such research issues rather than to actual effects.

Suppose, nevertheless, that the findings are not caused by the preceding methodological issues. It is also possible that more skillful CSR managers in innovative and differentiated companies are just as responsible but place less emphasis on communicating it or choosing highly visible CSR programs that will maximize their CSR ratings, because they believe that putting that effort into product innovation or advertising of other benefits will increase returns more. Less skillful CSR managers in such companies, while equally responsible, might put somewhat too much effort into communicating their responsibility and less into communicating other benefits. Clever CSI managers in such companies would likewise make somewhat less effort to seem responsible since they had other attractions to emphasize, whereas less clever CSI managers would not be as adaptive. The converse would be true for more and less skillful CSR and CSI managers in commodity companies, for example. As a result, it might seem that CSR was more effective in companies that were less differentiated or innovative, when the results were actually due to effects on apparent CSR of more and less skillful management.

Conclusion of Empirical Research Review

The effects of managing apparent CSR skillfully, along with other obstacles to developing accurate CSR measurements, probably explain a positive correlation of CSR as measured in studies with financials. Again, what makes higher CSR ratings correlate with better financials probably is an ability of skillful companies, whether they are actually responsible or irresponsible, to both ratchet up their CSR ratings as appropriate and to achieve better financial returns.

Implications for Moral Theory

The review of theoretical literature, and the insights from evolutionary game theory and nature, lend support to the theory that firms at varying levels of responsibility can achieve equal financial returns. Also, the empirical research literature does not, as it might seem to, negate the theory that returns of responsible and irresponsible companies are equal on average.

It would perhaps be preferable if CSR did produce higher financial returns. But since that does not appear to be the case, it is important to explore the implications of that conclusion. Viewed in a positive light, as noted earlier, it suggests the responsible manager still can achieve excellent financial returns. It also suggests a benefit of greater freedom in moral decision making. Since the returns are equal, a manager is not under financial pressure to use either an irresponsible approach or a responsible one. However, there are various complicated debates surrounding the question of moral freedom and responsibility. These could call into question the idea that equal returns theory offers greater freedom in making moral choices. They could also make it less clear exactly what that freedom consists of, and what should be done in light of equal returns theory. So it will be useful to examine the issue briefly.

Free Will versus Determinism

The key controversy surrounds the question of whether causal determinism is true and implies that people cannot possess moral freedom, and therefore cannot be held responsible for their actions (O'Connor 2000). We will divide the theories on this question into two groups (see Note 2 regarding another way of grouping them). There are numerous variations within each, but several key points will be sufficient for present purposes.

One perspective, termed agent causation, denies that determinism actually does account for all decisions, and holds that the person himself or herself is the cause of his or her actions (O'Connor 2000; see also Descartes 1641/1984: 343). Variations of such views claim that our nature or circumstances might limit our choices, but we have freedom in choosing among those open to us.

Another range of theories holds that our decisions are all caused by events we do not control. Some of them argue that we nevertheless have free will. One variety essentially equates free will with freedom to act without an external constraint or threat (see Hobbes 1651/1997: 116; and Widerker and McKenna 2003). Others argue, for example, that we can deliberate to reach decisions not driven by immediate impulses or deceptive situations, but still acknowledge that the outcomes stem, for instance, from the influence on character of genetics, upbringing and the like (see Clarke 2003). Another view argues we have free will because there is an element of indeterminacy in our decisions which shapes our character over the years in a way that is not causally determined (Kane 1996). But the indeterminacy is not seen as resulting from free choice, so it is no more under our control than chance (see Clarke 2003). Then there is a perspective that holds determinism is true and does not find a way to view people as nevertheless having free will. However, if this is correct most people still have freedom of action, and can use deliberation. Also, most people do have a psychological experience they perceive to be free will, whether it is actually free or not, and hold others morally accountable for their actions, in general, as a result (cf Strawson 1962). So the range of theories in this category will be called freedom of action and deliberation perspectives as a shorthand term.

Increased Moral Freedom

While it is important to consider this debate to gain a better understanding of the implications of the theory of equal returns, it is not necessary to resolve it. Suppose people have freedom based on agent causation. Then some people might freely decide to make other choices based on certain guidelines. For example, they might decide to do only what maximizes benefit to themselves. Or they might choose to take actions that benefit both themselves and others when possible, or failing that, that benefit them while minimizing harm to others. They might also choose to sacrifice their own interests in favor of others. There are in fact people who adopt each of these approaches. We see selfish people, decent people who do their best to balance their needs and others', and people who devote themselves at great cost to charitable efforts. This is substantiated empirically by, for example, the Kurzban and Houser (2005) study discussed earlier. They observed selfish players (free riders), decent players (reciprocators), and altruistic players (those who cooperated even at a cost to themselves).

If an executive who wants to be decent thinks they cannot maximize financial success without resorting to certain CSI practices, they will be under pressure to do that given the guidelines they have set for themselves. They may feel that even if the disadvantage in financial returns from CSR is initially modest, over time they will have less to invest and so on, resulting in a downward spiral. The selfish person also would be under financial pressure. The person willing to make sacrifices would not experience that type of pressure.

But if the decent executive realizes that they can get equal returns with CSR strategies, they will not be under such pressure. Thus, they will have greater freedom to act within their chosen guidelines. The selfish executive will also have greater freedom within their modus operandi. They will be able to maximize their results using either CSR or CSI. The self-sacrificing person made a decision to act responsibly even if it cost more, so they were already free to choose CSR within their guidelines.

Now suppose a freedom of action and deliberation perspective discussed above is reasonable, at least for practical purposes. In that case, the belief that CSI is necessary to maximize financials would be part of the causal chain. Executives could still choose guidelines for themselves, but rather than doing that out of agent causation, they would do it because of motivations caused by their earlier environment and the like. At that point, the same analysis nevertheless still would apply. The decent executive who realized the returns are equal would have greater freedom to choose responsibility. The selfish executive also would. And the self-sacrificing person would not have greater freedom than before.

The greater freedom in making moral decisions suggested by the theory of equal returns, then, affords many individuals a highly meaningful additional opportunity to shape the character of their lives. At the same time, there is no excuse of financial pressure to reduce personal responsibility for pursuing CSR or CSI. That places a greater burden on the executive. But it also means the executive can move more readily from a stage of moral development in which choices are made based on expected rewards and punishments to one in which they are made based on universal moral principles, for example (cf Kohlberg 1973; and Logsdon and Yuthas 1997).

The Role of Normative Arguments

That suggests it is still worthwhile to make normative arguments about how business should be conducted. These can include universal moral principles based on utilitarian or Aristotelian ethics, discussed earlier, to the effect that it is best to pursue one's ends in a way that also helps others, or, failing that, that at least does not harm them. If a freedom of action and deliberation perspective discussed above is adopted, such arguments would be part of the casual chain and might influence some leaders to choose decency. If the agent causation theory above is correct, the decent leader might realize based on such arguments that decency could encompass more than just one's own family, friends, and associates. That might seem like an obvious point. But history amply demonstrates that it has been far from universally understood. People who have been reasonably generous within their tribe, city or nation have frequently treated other groups a way that was terrible and unnecessary. While making such normative arguments obviously has not prevented all such events, it undoubtedly has contributed to the many instances of wider fairness. Comment on the use of deontological normative arguments is deferred to the end of the next section.

Deontological Implications

It is of course still possible to argue the individual has a moral duty to act in certain ways based on imperatives that are not derived from an assessment of net benefit or harm in a particular situation, as discussed earlier (Bowie 1999; Kant 1785/1992). However, individuals still could be seen as having greater freedom to choose good or bad--since they are not pressed by material gain or loss to pursue the one or the other--even though they will be morally culpable, based on deontological principles, if they choose bad. Of course, if the leader believes there is such a duty, his or her freedom to decide may be reduced. Yet he or she is still free to accept or reject the arguments that such a duty exists. Furthermore, according to Kant (1785/1984), one is able to freely accept a duty, through means that are beyond our ability to comprehend rationally. Whether or not that is true, even if a leader accepts such a duty, he or she still has greater freedom to choose in a practical sense than if, in addition, he or she were pressed by material gain or loss to choose responsibility or irresponsibility.

In light of these points, a deontological argument is still worth making for the same reasons other normative arguments are.

Opposing Irresponsibility and Encouraging Responsibility

It is important to consider the implications of the fact that irresponsible managers play a role in stimulating the development of CSR members of society. Society develops its capabilities more strongly in order to reduce vulnerabilities and repair damage that does occur. But it is essential to point out that none of this discussion implies we should encourage irresponsible individuals. On the contrary--only if we vigorously oppose them can society prosper. Furthermore, if the responsible dynamics of society did not oppose irresponsible ones, the irresponsible activities would not have any indirect positive effect. Such opposition takes the form of developing more advanced laws, institutions, technologies, methods of detecting deceptive arguments, and the like. Without such measures, irresponsible activities would continue unimpeded until there was nothing more left to take from civilization and the ecosystem.

Part of the effort to oppose CSI should involve revisions to the definition of the firm (Greenfield 2007). It is beyond the scope of this article to discuss that topic in detail. It is important address it briefly, however, to ensure it is clear that the theory of equal returns does not imply that the moral guidance and support we as society have given to firms are sufficiently robust. Clearly if the financial returns of CSR and CSI are equal, it is not necessary for companies to focus largely on profits alone in order to maximize overall benefits to society. With equal profits, the firm that creates a mutually beneficial stakeholder system can invest just as much in innovation and provide products and services at prices that are just as attractive. Thus, there is no justification for limiting the legal duty of the firm to serving investors' monetary interests.

Also, while compared to CSI companies, an inventive CSR company can achieve considerably better outcomes for society, under current conditions, its results will still leave a good deal to be desired. The destruction of the social and environmental infrastructure by irresponsible companies is legitimized on grounds that it is an unavoidable side effect of the only process that leads to the greatest long-term benefits for society. Conversely, attention to other stakeholders is de-legitimized as interfering with this powerful engine of growth. As a result, responsible managers are commonly harried if they try to invest in stakeholder loyalty beyond a certain point. Irresponsible managers are sanctioned in causing serious damage to society

Therefore, an expansion of the trend seen at the state level of providing legislative support for the idea that a business should have a moral or fiduciary duty to society and not only to investors would be beneficial (see Greenfield 2007). Also, expanding the use of market-based incentives and fees aimed at reducing externalities to stakeholders and the environment would better support decent leaders (see for example Cairncross 1993).

Recommendations for Future Research

The theory of equal returns leads to the research hypothesis that CSR and financial returns are orthogonal, that is, that increasing or decreasing CSR does not increase or decrease financial performance, on average. Because of the difficulties of conducting research in this area discussed above, however, it may prove more fruitful to place greater emphasis on research regarding topics other than the relative financial performance of CSR and CSI.

If further studies nevertheless were conducted in an effort to determine whether CSR has a positive effect on financials among certain types of companies, following up on the Hull and Rothenberg (2008) study discussed earlier, it would be useful to include other measures of CFP, a large random sample, and analysis of other possible interactions.

Studies also could be done focusing on comparisons among CSR companies, and among CSI companies, rather than between CSR and CSI companies. With respect to the former, for example, research in the area of stakeholder strategic management (see Freeman 1984; and Phillips 2003) could study mechanisms for CSR to maximize returns. The purpose would be to increase understanding of specific techniques for CSR achieve high returns.

It would also be useful to do more research on the longevity of responsible and irresponsible organizations, and on how frequently each experiences crises.

These research avenues would have the problems discussed earlier with obtaining accurate measures of CSR and of financial returns, and with confounding variables . One partial solution would be to limit studies to groups of companies that are clearly CSR or CSI. For example, HP over much of its history and Interface are two companies that it would be difficult to imagine being irresponsible firms in disguise. Similarly, there are some companies that are no longer able to disguise their irresponsible character, such as Enron, Worldcom, and tobacco companies. The history of their practices and financial performance is available for study. While such a sample would be too biased for research comparing financial results of CSR and CSI, it would be sufficient for studies that simply sought insights about what factors are probably most important to returns of CSR companies, for example.

Even using hand selected samples, such studies still would not be free of problems. If a principal issue driving financial returns is how well a company manages certain practices, rather than simply whether it uses them, then such research might have limited success (Jacobson 1990). It would be difficult to directly measure management skill, so the research might be limited to using financial success as the main indicator of it. That would mean the same criterion, financial success, would be used to measure both the dependent and independent variable. That clearly would not be viable.

Nevertheless, it might be possible to address that issue to a certain degree. For example, there might be some impact from simply implementing certain practices, apart from how skillfully it was done. It might also be possible to determine to some degree how well conceived a strategy was in certain areas. For instance, a pollution effort might simply filter out an effluent as opposed to extracting a useable output from it (Cairncross 1993). A volunteer program might appraise what employees would find most meaningful as opposed to simply offering a pre-selected project. Thus, it might be possible to make research along these lines worthwhile.

Other research that would avoid many of the drawbacks of the preceding have been proposed by Margolis and Walsh (2003). They point out that research to date has focused largely on financial returns. Not enough attention has been given to the effects of specific CSR practices on the stakeholders they are intended to benefit. More broadly, more descriptive research is needed to better understand how companies actually have responded to social problems. Such research could provide additional valuable guidance and support to executives seeking to benefit stakeholders.

Implications for Management Practice

It is likely most managers are not convinced that CSR produces better financial results, as they consider events of the corporate arena, and of history. Many seem to think that if they genuinely adopted CSR it would be a road to bankruptcy, and that they are compelled to engage in CSI as a result. That may make them wary of advice about specific ethical practices.

Managers can instead recognize the following: From a financial standpoint, they have a choice between adopting CSR and CSI that is not compelled by financial considerations, because they can get equally strong financial returns either way. But there are strategic principles that can help them maximize the financial benefits available to responsible companies (see Jones 1995; Kotter and Heskett 1992; Pfeffer 1998; Reichheld 1996; Waddock and Graves 1997). As a result, decent managers who no longer believe they are pressed by financial consequences to adopt certain CSI practices are likely to choose responsible management. They might reason along these lines: "As I watched the callous executives make a fortune, I always thought the idea that CSR produces greater returns was implausible. So I assumed they must be right, and felt I had to adopt CSI. Equal returns is more credible. It clears up my confusion. Now I feel I can follow my conscience and adopt CSR." Thus, the idea that CSR does not produce greater returns may not reduce its net adoption rate by managers. Furthermore, the logical soundness of the argument that average returns are equal may greatly strengthen commitment to CSR among decent business leaders. That would be a major improvement over the current situation in which even many decent managers muster only lukewarm acceptance (see Franklin 2008). Thus, it would strongly augment the substantial proportion of managers who are already undertaking important responsible initiatives. Given that research suggests there are more people who are decent than not (even though the material rewards are equal) (e.g. the study cited above by Kurzban and Houser 2005), that could go a long way toward winning the current battle between CSR and CSI.

The individual business leader who decides to use his or her moral freedom responsibly can do it in four ways. First, he or she can adopt a strategy that uses stakeholder loyalty and green practices to maximize social and environmental as well as economic value (Waddock, Bodwell and Graves 2002). Second, he or she can undertake stakeholder engagements to enhance mutual understanding of participants' needs, and, whenever possible, to create mutually beneficial opportunities that might not otherwise be obvious (see Barrett and Cooperrider 1990; Hood, Logsdon and Thompson 1993). Third, he or she can have conversations with peers, informally and in formal gatherings of leaders, aimed at upgrading their shared conception of what they ought to value. Fourth, he or she can vigorously seek development of a new law that would strengthen the position of decent leaders by making it the fiduciary duty of companies to create value not by robbing Peter to pay Paul, but by finding strategies mutually beneficial to executives, employees, customers, the social infrastructure, the environment, and investors (Greenfield 2007). None of this would create a utopia. But it would be an important part of the constant renewal we must undertake to help maintain the vitality of our world.

Footnotes

1. According to Kant: "Happiness alone is, in the view of reason, far from being the complete good. Reason does not approve of it (however much inclination may desire it), except as united with desert. On the other hand, morality alone, and with it, mere desert, is likewise far from being the complete good. To make it complete, he who conducts himself in a manner not unworthy of happiness, must be able to hope for the possession of happiness." (1781/2002, Part 5, Chapter 2, Section 2: 413.) Happiness entails ". . .a lasting enjoyment of the real pleasures of life . . ." "The natural impulses toward nourishment, the sexual instinct, or the tendency to rest and motion, as well as the higher desires of honour, the acquisition of knowledge, and such like, as developed with our natural capacities, are alone capable of showing in what those enjoyments are to be found." (1785/1984, Chapter 2: 387.) He also says: ". . . let the matter be my own happiness. This (rule), if I attribute it to everyone (as, in fact, I may, in the case of every finite being), can become an objective practical law only if I include the happiness of others" (1788/2005, Part 1, Book 1, Chapter 1, Section 8: 30).

Thus, Kant holds that acting in accord with principles that *tend* to increase the happiness of both the self and others is an essential component of the good, even though it must flow from the free acceptance of duty. The word "tend" is emphasized because Kant suggests choosing actions that are right in themselves, regardless of whether they make the individual or others happy in a particular instance. But he clearly believes that right actions usually do in fact contribute to the individual's happiness and that of others. He believes, however, that one should not pick and choose when one acts rightly based on the consequences of each individual act. Instead, one should be decide how to act based on a general principle, the categorical imperative.

2. These theories are traditionally grouped into two categories based on whether they claim that determinism and free will are compatible or incompatible. In fact, some of the latter turn out to be varieties of the former on close inspection (see Clarke 2003). We group the views into two other categories that are more useful for present purposes. For the sake of simplicity, we do not discuss how each theory is traditionally categorized.

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