

**Social Investment Forum  
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# **“Corporate Social and Financial Performance: A Meta Analysis”**

**Marc Orlitzky, Frank L. Schmidt, Sara L. Rynes**

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Key Findings of the  
2004 Moskowitz Prize Winning Report



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## “Corporate Social and Financial Performance: A Meta Analysis”

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For a copy of the complete report, please visit:

[http://business.auckland.ac.nz/newstaffnet/profile/publications\\_upload/000000556\\_orlitzkyschmidtrynes2003os.pdf](http://business.auckland.ac.nz/newstaffnet/profile/publications_upload/000000556_orlitzkyschmidtrynes2003os.pdf)

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## Report Summary

### Key Findings

The authors performed a meta-analysis of 52 studies on the relationship between corporate social performance (CSP) and corporate financial performance (CFP). Their analysis demonstrated that the literature on this issue is more meaningful and coherent than most researchers had realized and, in fact, demonstrates:

- There is a positive association between CSP and CFP across industries.
- The link between CSP and CFP is significant and varies from highly positive to moderately positive.

### Background

Academics who had previously reviewed the literature exploring the relationship between CSP and CFP had found the studies to be inconclusive – no link between CSP and CFP could be proved or disproved. Most recently, according to Barnett and Salomon (2003), “Despite the intensity of study directed at it, the relationship between CSP and ...CFP remains in dispute.” Reviews of the literature often found the many studies to be dissimilar in their findings. However, none of these researchers had applied meta-analysis – the aggregation of many studies using complex statistical techniques – to their reviews of the field. This left open the question of whether the reviews of the literature were inconclusive because the methods for reviewing the literature were not sophisticated enough to find correlations that were obscured by methodological artifacts, such as sampling and measurement errors.

## Hypotheses

The authors set out to investigate four hypotheses in their meta-analytic review of the 52 studies on the relationship between CSP and CFP:

1. There will be a statistically significant relationship between CSP and CFP. (*Corporate social performance and financial performance are generally positively related across a wide variety of industry and study contexts*)
2. CSP and CFP will mutually reinforce one another – improvements in financial performance will create improvements in social performance and visa versa. (*There is reciprocal causality between corporate social performance and financial performance.*)
3. The correlation will be shown to be due to:
  - a. improved managerial competency
  - b. improved corporate reputation.
4. Much of the variance in 52 studies analyzed will be due to:
  - a. sampling and measurement errors
  - b. different data sources.

## Methods

In the past, researchers who reviewed the CSP-CFP literature conducted narrative reviews or used vote-counting methods (the cumulation or, even more simply, the tabulation of significant and non-significant findings). Neither of these techniques is adequate because they do not correct for sampling and measurement error. Using vote counting techniques, statistical error actually increases with the number of studies reviewed. In contrast, Orlitzky et al. use meta-analysis in their review precisely because it corrects for sampling and measurement error when reviewing multiple studies. Meta-analysis is a proven statistical technique that is frequently used in the medical research field to review multiple studies. Its use in the management field is relatively new.

The authors searched the literature for the fullest list possible of journal articles on the relationship between CSP and CFP. They located more than 1,200 business and trade journal articles from 1970 to the present. They limited the studies they analyzed to those that 1) quantitatively examined the relationship between CSP and CFP; 2) were concerned with at least one aspect of a firm's economic performance; and 3) conformed with the following definition of CSP: "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships." (Donna Wood: *Corporate social performance revisited*, 1991). This resulted in the 52 studies that were subjected to meta-analysis.

## Conclusions

The authors were able to support all four of their hypotheses through their findings.

- 1) **There is a statistically significant relationship between CSP and CFP.** The analysis demonstrated that CSP explains 13% of the variance in CFP. In other words, the corrected, or true score, correlation between CSP and CFP was a non-trivial .36. The authors also addressed concerns regarding availability bias – the possibility that studies that fail to show a relationship between CSP and CFP are unlikely to be published. The authors conducted a file drawer analysis demonstrating that over 1,000 such studies would be needed to overcome their overall conclusions.
- 2) **CSP and CFP mutually reinforce each other.** Through the use of time lags, Orlitzky found that CFP is a predictor of future CSP, and that CSP predicts CFP. “Taken together, these findings suggest a virtuous cycle with quick cycle times or concurrent bidirectionality.”
- 3) **The correlation between CSP and CFP are shown to be due to improved managerial competency and improved corporate reputation.** The analysis demonstrated that, among the various CSP linkages, reputation was a stronger predictor of CFP than managerial competency.
- 4) **The variance in studies is due to sampling or measurement error and different data sources.** The study artifacts of sampling error and measurement error explained between 24% and 100% of the variation of observed correlations in primary studies. This shows that the previously assumed great variability of findings can often be reduced to only two methodological artifacts (there are typically more artifacts than those two; cf. Hunter & Schmidt, *Methods of Meta-Analysis*, 2004). In addition, the analysis demonstrated that reputational measures were better predictors of CFP than social audits and that the impact of CSP on CFP was generally stronger with accounting measures than market measures.

## **ABOUT THE SOCIAL INVESTMENT FORUM FOUNDATION**

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The Social Investment Forum Foundation conducts educational work on socially and environmentally responsible investing, including portfolio screening, shareholder advocacy, community investing, and research. The Foundation works closely with the Social Investment Forum Ltd., the national nonprofit membership organization of financial professionals and institutions actively involved in the socially responsible investment industry. The Forum is dedicated to promoting the concept, practice and growth of socially and environmentally responsible investing.

## **ABOUT THE MOSKOWITZ PRIZE**

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The Moskowitz Prize for excellence in social investment research is awarded annually by the Forum. Named after socially responsible investment pioneer Milt Moskowitz, this prize supports research into the diverse field of socially responsible investment including social screening, comparative performance, community development banking and direct investment.

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