

The Relationship Between Social and Financial Performance: *Repainting a Portrait*

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The article *The Relationship Between Social and Financial Performance* by Roman, Hayibor, and Agle presents an illustration of the relationship between corporate social performance (CSP), which is incorporated by the broader concept of business ethics, and corporate financial performance (CFP). The authors try to depict evidence of the CSP/CFP relationship by carefully analyzing, categorizing, and reclassifying existing literature and previous studies and research.

The study attempts to make more valid categorizations and to extend the body of research done by Griffin and Mahon, which was published by *Business & Society* in 1997. Griffin and Mahon (1997) categorized 62 research results as reported in 51 articles (spanning 25 years of research) and created a table with three categories of relationship:

- a positive correlation
- a negative correlation
- no effect

Roman, Hayibor, and Agle reconstructed Griffin and Mahon's table, using specific methods which are discussed in detail in the article. The overall impact of the reclassification is a decrease in the number of studies showing a negative correlation between CSP and CFP.

One reason for that is the authors' approach in reclassifying eight articles which were previously perceived as showing a negative relationship between CSP and CFP. Unlike the previous researchers, Roman, Hayibor, and Agle treat a negative effect causing a negative result as a positive relationship. The example offered relates to an unfavorable pollution control report (poor CSP) which led to negative abnormal stock return (negative CFP). This, according to the authors, is a positive relationship.

The second group of recategorized articles includes the ones that demonstrate less conclusive results. For example, some studies have split up the empirical results into industry types and company types within a certain industry. Roman, Hayibor, and Agle believe that this categorization is confusing and insufficient to provide either positive or negative relationships with regard to CSP and CFP. Therefore, they place such research into the 'no effect/inconclusive' column in their table.

Since Roman, Hayibor, and Agle find invalid or missing CFP and CSP in seven research results from Griffin and Mahon's (1997) table, they remove these results in the process of the reconstruction of their table. Roman, Hayibor, and Agle admit, however, that the adjustments made are subjective, since no real consensus exists on the proper measures for either CSP or CFP. Roman, Hayibor, and Agle accept established accounting performance indicators such as return on asset (ROA) and return on equity (ROE) to be useful measures of CFP. Advertising

expenditures, asset age, executive compensation, and liquidity are unacceptable measures of overall corporate financial performance, according to the authors.

Also, four studies are excluded from the revised table because later research has corrected research deficiencies in the original works. Four new studies published since Griffin and Mahon constructed their table are included and listed as positive in the analysis.

In their analysis Roman, Hayibor, and Agle make an attempt to assess the validity and relevance of each of the 51 studies by today's standards. They maintain that there are significant inadequacies of some of the early work, which have become apparent after decades of progress. The authors believe that the table presented in their article depicts a more accurate picture of the relationship between CSP and CFP. **They place 33 studies in the column of positive relationship between CSP and CFP, 14 studies in the no effect/inconclusive relationship, and 5 studies in the negative relationship column.**

Most of the studies reviewed show positive relation between CSP and CFP. However, Roman, Hayibor, and Agle themselves imply that there is still a lot to be explored in this field of study. For one, researchers should determine and agree on standard measures of the "multidimensional construct, CSP, and obtain reliable and valid sources for data concerning it."