

Myths and realities of social investing

Author: Sandra A. Waddock

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``Myths and Realities of Social Investing¹

Sandra Waddock
Boston College
Carroll School of Management
Chestnut Hill, MA 02467

617-552-0477
f: 617-552-0433
waddock@bc.edu

In ‘The Myth of Social Investing’ Jon Entine raises a number of important issues with which the social investment movement, social research firms, and academics have been struggling for years. Socially responsible investing (SRI) and social researchers who support it, as well as academic researchers who use the data generated by social research, recognize that the gathering and use of company data of any sort is an on-going process of continual improvement and focusing. Entine’s paper, however, is flawed by subtle misrepresentations and shifts of topic that confuse the reader, as well as not so subtle errors and accusations. Comprised mostly of assertions and allegations, rather than a theoretically driven, evidence-based assessment of the field of SRI (for a more fact-based and academically rigorous analysis of SRI, see Schepers & Sethi, 2003), Entine’s paper uses words and phrases like ‘propaganda,’ ‘bias,’ ‘rant,’ ‘ideological,’ ‘anachronistic,’ ‘idiosyncratic,’ ‘pseudoscience on a par with astrological research,’ and ‘hyperbolic claims’ (among others) to assert that SRI and the academic research surrounding it is fatally flawed. While attempting to ignore as much as possible this inflammatory language, I will in what follows attempt to correct some of Entine’s most basic misinterpretations and allegations.

Characterizations of Social Investment and Research

‘The Myth of Social Investing’ fundamentally questions how social research data are gathered and used for social investment purposes, how these data are used by academic researchers, as well as whether the data measure what they purport to measure. It also raises the important issue of whether SRI actually accomplishes its goals of social change. Unfortunately, ‘The Myth’ consistently conflates uses of social research data (including data from Kinder, Lydenberg, Domini [KLD], the *de facto* research standard at the moment) for investment and research purposes, and academic research using those

¹ The author would like to thank Tim Smith of Walden Asset Management and president at this writing of the Social Investment Forum, Steve Lydenberg, of Domini Social Funds and former principal of KLD, and Sam Graves, Professor, Boston College, for insights, comments, and corrections on an earlier draft of this paper. Any remaining errors are my own.

data.² Entine erroneously characterizes SRI as focusing only on a few sin issues, and even more egregiously suggests social research databases focus only on ‘sin’ issues such as gaming, tobacco, nuclear, military contracting, and alcohol. Let’s make the distinctions clear.

Socially Responsible Investing (SRI). SRI is comprised of an investment community encompassing a wide range of individuals and groups (including religious groups, universities, and some pension and mutual funds) interested in criteria other than simple return on investment. These criteria can include so-called sin issues (for screening out companies), but as SRI has evolved over time, the criteria have increasingly emphasized the stakeholder categories that Entine suggests are not included.

In addition, the SRI movement, as the Social Investment Forum highlights on its webpage, is comprised of much more activity than simple investment in specific funds (and this is how the > \$2 trillion figure so criticized by Entine is arrived at, as is transparently clear on the SIF website). In some respects, Entine seems stuck in an old paradigm of SRI, failing to acknowledge that the movement has grown and evolved since the early days when shareholder activism directed at company divestment from South Africa (a process that did indeed help to change the Apartheid system) was a major focus of SRI. In addition to investments in specifically screened funds, SRI today includes community development investing and a good deal of shareholder activism/advocacy that is directly aimed at changing company practices.³ Shareholder activists submit on the order of 300 social policy resolutions to companies annually, some of which are withdrawn as a result of on-going interaction between activists and corporate managers, with attendant commitments on the part of companies to change their practices (Graves, Waddock & Rehbein, 2001).

Social Research. Social research firms such as KLD, in contrast to investors, gather data on all companies in major (usually size-related) groupings such as the S&P 500, or more recently the Russell 1000 companies. These data describe positive and negative company related attributes, policies, and practices for important stakeholder-related categories like employees, communities, products, international operations, and environment, as well as the ‘sin’ categories that are of interest to some investors. Social funds, such as the Domini Social Fund, the Calvert family of funds, and other SRI funds typically draw upon SRI research data generated in-house or provided by SRI research firms such as KLD, and focus on screens of interest to investors in those funds.

² KLD is a social research firm in Boston that historically gathered annual corporate responsibility data in ten categories representing both stakeholder concerns and a variety of issues on the S&P 500 plus another 140 companies included in the Domini Social Fund as a way to balance that separately managed fund. Currently, KLD (see www.kld.com for more information) collects annual data on the Russell 3000 firms, with data for the Russell 1000 comparable to that of the historically-gathered S&P 500, and less complete information available to data for the rest of the Russell 3000.

³ For background about the types of things that social investors and activists do, see the Social Investment Forum’s website at <http://www.socialinvest.org>, and IdealsWork at www.idealswork.com in the US and the UK Social Investment Forum at <http://www.uksif.org/>.

For KLD's database ("Socrates") these data are on stakeholder as well as issue-related screens, consistently, year-to-year, for all companies in its universe (approximately 650 since its inception). Companies are not 'screened out' of KLD's database, although they may well be screened out of an index or a fund. As an example, the Domini Social Equity Fund, which KLD constructs using its database to screen companies, includes about half of the S&P 500 companies plus about 140 other companies that have 'passed' relevant screens. Other funds use different screens, sometime based on screens that are internally developed and managed, and come up with different groupings of companies.

In its research, KLD identifies companies participating in certain product categories, industries, and issues of particular interest to different groups of social investors (such as alcohol, gaming, tobacco, nuclear power, and military contracting). Entine and Schepers & Sethi (2003) in another recent critique of social investing call these exclusionary screens because they only give negative ratings, potentially excluding companies from inclusion in 'socially responsible' categories. Exclusionary screens are used—*by investors and fund managers*—to screen out companies participating in industries, product categories, or practices that specific investors wish to avoid. It is somewhat puzzling that such a market-based response to investor interests would be seen to be problematic since the *investor* or fund manager chooses screens of interest, a classic case of a market responding to an expressed customer need.

Scholarly Research. Academic researchers doing empirical work using SRI data take a variety of tacks, depending on the theoretical framework they are drawing from. Rather than lionizing specific companies, most academic research using social research databases is large-scale empirical work that seldom highlights any particular company. Rather, these studies tend to use correlational methods to sort through the data looking for the types of patterns and trends that academics are interested in. Questions of the following sort are typical academic exercises: what relationships exist between companies' performance with respect to a given set of variables (either issue or stakeholder related) and another variable of interest (e.g., financial performance, governance, number of media reports, and so on)? Sometimes when questions involve a comparison of traditional and social investing the selection criterion for picking companies is indeed their involvement in a given fund or not, but such comparisons are at the heart of addressing important issues of comparative performance.

Different Rationales for Using SRI Data. The reasons an investor or fund manager uses data such as KLD's or any other social research data are considerably different from the rationale—and usage—by a scholar. Investors rightly want to determine the nature and performance of their investments. Most investors make this assessment on the basis of past or expected future financial performance. Social investors, however, wish to make their investment decisions on additional bases, including product-related issues, stakeholder performance, and social or ecological criteria. Social researchers provide data on which such selections can be made with a reasonable assurance of consistency, quality of data, and company performance over time.

Social Investment Data, Research, Reliability, and Validity

In 'The Myth' Entine suggests that Sam Graves and my (1997b) statement that the KLD data are currently the best available corporate responsibility data is 'astonishing.' It is equally 'astonishing' that a simple factual statement that the data are the best currently available would be so characterized. Characterization aside, it is *still* true that the data are the best currently available to scholars on the wide range of companies that KLD evaluates. KLD's database has proven itself to be factual, reliable, broad-ranging, and maintained with consistency and transparency over the past decade. Entine might find refinements in the categories or data-gathering processes problematic, however, they are part of an important learning process going on within the social investment community, as well as with respect to the scholarly uses of such data. Further, to suggest that the issues on which social researchers gather data are somehow irrelevant to companies is to ignore the reality that companies by the hundreds are developing their own internal codes of conduct related to various stakeholders, adopting globally proffered standards such as the Global Compact, Global Sullivan Principles, OECD Guidelines for Multinational Corporations, Caux Principles, and the like, and developing practices to help deal proactively with areas on which they are criticized by social investors and other corporate critics (e.g., community relations, sweatshops and human rights, environment, diversity), which overlap with data categories used by social researchers.

Data Gathering Methodology.

Far from being inconsistent, unreliable, and derived solely from company reports, KLD data and that of other social researchers are collected from a wide variety of sources, with company sources only one part of that mix. A mixture of company reports, published reports, court decisions and reports, governmental reports, and investigative journalism is used to gather data on companies, not ideologically biased personal opinion. As stated in published work:

In each of the areas, KLD investigates a range of sources to determine, for example, whether the company has paid fines or penalties in an area (for concerns) or has major strengths in the area (e.g., strong family policies for the Employee Relations category). [The KLD website, www.kld.com] provides details on the factors used in determining ratings for each of the eight categories. Where possible, KLD uses quantitative criteria to determine the rating (e.g., \$ amount paid in fines or penalties; % of employees receiving certain kinds of benefits). Judgment is necessary, of course, in the determination of the cutoff point for a negative rating, as well as in borderline case and in interpretation of qualitative criteria (e.g., an excellent employee or community relations program). KLD staff members meet on a weekly basis to discuss borderline cases and assure that decisions on ratings are being made in a consistent manner across companies and from year to year. (Waddock & Graves, 1997a, p. 307-308).

Reliability.

Such data gathering methods and criteria are hardly mysterious; the criteria for each variable and the underlying reason codes, at least for KLD's data set, are published on the web.⁴ Although ratings are surely based on a combination of quantitative and qualitative information, including interpretation, and judgment, these judgments are in many respects no different from the interpretations that underlie financial and accounting statements, which also rely on the (sometimes erroneous and sometimes felonious as witnessed in first years of the new millennium) judgment of auditors, accountants, and financial analysts to determine materiality.

Further, approaches like the one described above suggest a reasonably high level of reliability—consistency from year to year.⁵ Are mistakes made? Certainly. Can improvements be made in the data? Of course. The evolution of measures during the late 1990s and early 2000s indicates continual emphasis on refinement of categories, addition of new variables as they become relevant, and better understanding of the factors underlying corporate responsibility. Social research of all kinds is a human activity undertaken by a community of researchers and scholars interested in achieving the best measures possible for the underlying constructs. Gathering social data on companies—and knowing what data to gather—is a work-in-progress rather than an attempt to gain perfection, however, it is held to the standards of any other social science inquiry—reasonable openness to improvement, better interpretive logic, and broader understanding of the relevant variables.⁶

Validity.

Rather than an issue of reliability (consistency of measurement across years and companies), the actual question that Entine seems to be trying to raise is one of validity: do the data measure what they purport to measure (see also Schepers and Sethi, 2003)? This question is an important and complicated one. It gets to the heart of the definition of corporate 'social' responsibility and the underlying factors that create it. Elsewhere (Waddock, 2003), I have argued that corporate social responsibility reflects what Carroll (1979, 1998) terms the discretionary aspects of a company's responsibilities, while the emerging term corporate responsibility (and its analog corporate citizenship) reflect integral responsibilities associated with the underlying reality that a company mutually affects/interacts with a wide range of stakeholders and the natural environment. The evolution of indicators used in social ratings to some extent reflects this same shift in definition.

⁴ See www.kld.com for KLD's particular reason codes and categories.

⁵ This consistency is evident in the relatively stable rankings of the "Best 100 Corporate Citizens" published annually in *Business Ethics* magazine, which use the KLD database as their foundation. Companies' rankings are reasonably stable year to year. Shifts in the rankings partially reflect changes in the methodologies used to obtain the rankings, which are explained in articles accompanying the rankings, e.g., a move in 2003 from the three-year moving averaged used for the first few rankings to a one-year assessment to accommodate the incorporation of more data for the Russell 1000 companies vs. the S&P 500 plus Domini companies previously used.

⁶ I am grateful to John Jermier for helpful comments on this paragraph.

Let me explain. As Entine argues, early in the days of the corporate investment movement, social investors (although they did not identify themselves as ‘social’ at that time) were mainly religiously-affiliated investors who wished to avoid placing their investments in ‘sin’ industries (e.g., tobacco, gaming, alcohol, gaming, nuclear power, military contracting, animal testing, involvement in abusive regimes like South Africa or more recently China and Burma, and so on). Thus, early screens were indeed exclusionary and issue based. Initial social investing screens did evolve from the very particular investor interests in screening companies for specified practices, products, or industries (e.g., tobacco, gaming, military contracting, animal testing, and the like). By definition, exclusionary screens provide only negative ratings, because they are used to highlight specific practices that certain groups of investors wish to avoid. As a result, they may well carry some ideological baggage (though that baggage can represent both traditional ‘right’ and ‘left’ perspectives). Such negative screening explicitly allows *investors* to opt out of companies whose practices or products they choose to avoid, in an almost archetypal manifestation of free market.

But do such indicators really represent corporate social responsibility—or, more important, the broader stakeholder-oriented construct of corporate responsibility? The answer to these questions is more debatable. From its inception, the data in KLD Socrates and other social research databases have incorporated a range of stakeholder and natural environment indicators in addition to exclusionary screens. On the other hand, because social researchers working for the social investment community implicitly knew that investors had concerns about stakeholders, many of these indicators do, in fact, represent dominant *stakeholder groups* and the natural environment, which is an emerging definition of the broader concept of corporate responsibility (e.g., Marsden, 2001; Andriof & McIntosh, 2001; McIntosh, Leipziger, Jones & Coleman, 1998; Marsden & Andriof, 1998). For example, the KLD database has indicators for employee relations, community relations, environment, product, and international operations (an indicator added in about 1995 that was not in the initial database), in addition to the issue-oriented negative screens. Similar indicators would need to be developed if the very intriguing South African rating scheme described in Entine’s paper were to be adopted. All such indicators are necessarily somewhat perception-based and require judgments by raters.

Entine rightly notes that there are arbitrary (but clear and consistent) decisions within various categories about where to make cut-offs within various categories being rated (e.g., the percentage or number of women represented on boards or in top management). The values embedded in these categorizations, while not entirely so, do tend to be more progressive rather than conservative.⁷ Hence corporate performance on issues of diversity (measured by representation of women and minorities on boards or in management), ‘progressive’ employee policies like gay and lesbian partner benefits, or innovative programs for the disabled (all mentioned by Entine as being promulgated by a socially-responsible Svengali) is indeed defined by the reason codes underlying the social ratings in the KLD scheme.

⁷ Even liberal, which, by the way, is not a bad word.

Such ratings, however, do not of themselves render the data ‘subjective and unreliable’ nor Svengali-like, as Entine avers because social research firms are typically transparent about assessment criteria. Purchasers/users of the data have access to the decision criteria behind particular ratings. If an investor (or scholar) does not agree that a particular policy or rating is a reasonable representation of a construct, then the investor (researcher) will simply use different variables. Further, the measures themselves evolve as new issues or trends of interest emerge. For example, the international operations indicator was added in the mid 1990s to recognize issues associated with global supply chains and, more recently, the ‘other’ measure was reconceptualized to become a measure of governance, as it became clear that governance issues needed to be better addressed within the data.

The validity question (do the indicators in social research data actually measure corporate responsibility) is thus partially a definitional question. If corporate ‘social’ responsibility were to be defined solely as business’ interactions with society, then perhaps an issue-orientation would suffice and negative screens might be useful for certain purposes other than investment. Entine is correct that as definitions have evolved, however, corporate responsibility has tended to focus less on discretionary responsibilities (Carroll, 1979, 1998), and more on integral relationships between companies and stakeholders or the natural environment, responsibilities that cannot be sidestepped, relationships that in the absence of intensive case material (for which, however, see Clarkson, 1991, 1995) are at least partially manifested by corporate policies, procedures, and practices that can readily be ‘measured’ as indicators and compared across companies.

In-depth case studies of particular company practices, corporate culture, labor/employee relations, and similar issues related to responsibility can provide important insights into the outcomes and impacts of corporate practice that cannot be revealed by indicators or ratings that rely on evaluation of practices. A key point is that much of what currently is used to assess corporate responsibility represents indicators of inputs and processes/practices, while actual assessment of responsibility may need at some point to evolve to measures of *impacts* on stakeholders and the natural environment.

Conceptual Issues

Entine argues that social investors have never ‘made the case’ that social investing promotes reform. Ratings and rankings, it is true, simply highlight current (actually, past) performance and allow investors to make decisions on a broader set of criteria than financial performance alone. Other aspects of SRI, however, including shareholder activism and community development investing do promote reform (see, e.g., the work of Shore Bank in Chicago and the Grameen Bank in Bangladesh, both of which be considered part of the broadly-defined SRI movement).

Entine argues for a narrow definition of SRI, one based solely on how much is invested in socially-screened funds, an outdated definition of SRI. An incisive analysis of how much is ‘socially’ or ‘ethically’ invested in funds can be found in “Do Socially

Responsible Funds Actually Deliver What They Promise? Bridging the Gap Between the Promise and Performance of Socially Responsible Funds?” by Donald Schepers and S. Prakash Sethi (2003). As Entine correctly points out, the commonly used Social Investment Forum definition of social investing of over \$2 trillion includes many kinds of social activism directed against companies by social investors. Notably, this fact is transparently discussed on SIF’s website and in much of the research that has used the figure.

‘Perception not ethical performance drives social investing,’ says Entine. One could equally well argue that perception or expectations about future performance not actual financial performance drives analysts’ ratings and stock prices, especially given the scandals of the early part of the millennium. Realistically, all evaluation of companies, even financial evaluation, involves some degree of perception and judgment despite the fact that we assign financial indicators more credibility than more qualitative ones. It is also true that hard evidence that the ethical/social performance of highly rated companies is actually better than that of poorly evaluated companies may need to await the development of impact/outcome measures discussed above. Ah, but that leads us to the next and critically important issue.

Missed Issues

SRI does sometimes miss issues. So do financial and strategic analysts, as well as investigative reporters. Among the issues that have come to public attention in the early 2000s are serious failures of governance, accounting scandals that continue to be big news since the late 1990s, corporate failures associated with malfeasance and executive greed, and to some extent the looming crisis in pension funding (see also Entine, 2003). Far from ignoring these issues, however, KLD and many other social researchers *have* been monitoring and consistently reporting on issues such as pension funds (both generous and weak), as well as excessive CEO and board compensation issues for years in their databases. Furthermore, one reason why social researchers and the SRI movement have paid somewhat less attention to governance than other issues is that these issues are *already covered* by financial analysts in the traditional financial research that backs up all investment strategies.

Changes—whether in investment practice, public policy, or corporate policies and practices—lag issues, scandals, or specific problems that emerge into the public awareness through the public policy life cycle (Preston & Post, 1975; Mahon & Waddock, 1992) almost by definition. Although social investors and social researchers can be proactive, predictive, and cognizant of important issues, and can work interactively with companies to improve performance (e.g., through shareholder resolutions), much of the time they (like the rest of us) are reacting after the fact to specific issues that have gained notoriety. Thus, the Social Investment Forum, an industry organization for the social investment community, recently recognized that it had, in fact, largely missed the whole issue of corporate governance, accounting frauds, and the erosion of public trust resulting from these scandals:

The social responsible investing (SRI) community has long advocated and worked for increased corporate disclosure and transparency, with respect both to vital issues of corporate governance as well as social and environmental responsibility. [2002's] corporate scandals reveal that our system of corporate governance—against the backdrop of lax regulatory oversight and enforcement—has utterly failed to produce a system of checks and balances that would hold corporate managers and directors accountable. In a broader sense, the scandals also underscore the fact that corporate irresponsibility has become perhaps the gravest threat to the long-term health and prosperity of our nation's economy.

...It is time to restore trust and confidence in businesses and markets through more rigorous corporate governance, more robust disclosure and reporting, improved regulatory oversight and restoring the relationship between corporations and their various stakeholders. Just as importantly, it is time for a new definition of the corporation itself—one where stakeholders also sit center stage, and where corporate social responsibility becomes just as important as corporate profitability. (O'Keefe & Smith, 2002).

Further, few companies rating the entire S&P 500 (or the Russell 1000) have the time, resources, and energy to 'go after' all the dirt on a company as investigative reporters do (e.g., Entine, 1994). Fraud, by definition, is hidden and frequently takes massive internal investigation to uncover. Social research by the SRI community relies in part on investigative reporting. One of the important sources of data that goes into employee, community, product, and related ratings derives from news reports about controversies related to company performance in various arenas. Of necessity there will be a lag between when a controversy happens, e.g., the Odwalla and Body Shop cases Entine cites, and when the ratings reflect those controversies.

'Exemplary' Companies

It is true that the social investment community has been and still is interested in highlighting corporate best and worst practices in companies...but it is important to recognize that in general it is not whole companies but specific company *practices* or *functions* that have been recognized (to use Entine's word, lionized). Like trade and industry associations, the SRI community wants to give credit to companies instituting exemplary practices, while simultaneously recognizing the multi-dimensional nature of the corporate responsibility/citizenship construct. Exemplars provide role models it is hoped that others will follow. Mistakes in judgment about these practices and recognition of specific company practices, as well as problems that surface in other arenas are not the same as ideological bias or blinders. As I pointed out to the editor of my book *Leading Corporate Citizens* in arguing (unsuccessfully) against the inclusion of cases, the minute you pick a company as an exemplar, something in these large, complex, and very human enterprises is likely to go wrong (or be wrong and become public), even if not associated with the particular emphasis of the case or the SRI recognition.

Finally, there is not now and never was any implication that SRI would somehow make companies ‘pure,’ as Entine seems to expect. The multi-dimensionality of the corporate responsibility construct combined with the complexity and constant change inherent to corporate reality work against such a possibility. Social change of the sort desired by SRI, however, happens for at least two reasons. One is because what is good to do becomes known (exemplary activities, high ratings). The other is that what is bad or problematic about practices becomes known and publicized (e.g., negative ratings, investigative reports).

Performance

As noted in the introduction, scholarly use of social research data, such as KLD’s, which has been generously made accessible at a reasonable cost to academic researchers, differs dramatically from investment use. Most researchers use specific variables that best fit a conceptual model of interest to do large-scale correlational analyses. Scholars in the business in society field, Entine correctly points out, have long been frustrated at both the complexity of measuring corporate ‘social’ responsibility. There have been numerous empirical efforts over the years to find a link between social and financial performance, which Ullmann (1985) characterized as ‘data in search of a theory.’ Wood & Jones (1995), Griffin & Mahon (1997), Pava & Krausz (1996), Wolfe & Aupperle (1991), and many others have pointed out that numerous problems are associated with the multi-dimensional construct of corporate responsibility, as well as with many variables used to measure corporate responsibility, with a corresponding lack of clear definition of the underlying construct. To deal with this problem, scholars have used a raft of different variables to measure corporate (social) responsibility, some of which simply measure a particular stakeholder or environmental perspective in what has been termed stakeholder mismatching (Wood & Jones, 1995). Despite these measurement issues, a recent meta-analysis concludes that the relationship between social and financial performance (about which there are nearly 100 studies) is somewhere between neutral and positive (Margolis & Walsh, 2000, 2001). Most of these studies, however, do not directly seek to test social investment fund performance but rather the empirical link between ‘social’ and financial performance in a range of different companies.

While KLD’s or any other social research firm’s data may, as Entine points out, have been developed aconceptually, the use of the data by scholars is not atheoretical. For example, many of the better recent empirical studies exclude negative screens from the analysis, and use the stakeholder and/or environmental screens and a stakeholder conceptualization (e.g., Hillman & Keim, 2001; Berman, Wicks, Kotha & Jones, 1999; McWilliams & Seigel 2000). Generally speaking, empirical research has gotten better over the years as more and better data have become available; better theoretical development has accompanied recent studies.⁸

⁸ Admittedly when we first began to use the data (and I believe we were the pioneering scholars in this regard), Sam Graves and I did develop a single weighted index that used all of the KLD data including the negative screens (1997a). Soon, however we as well as most other researchers using the KLD data soon evolved to a more conceptually-based use of the data that incorporated a stakeholder framing for selecting which categories of the data are relevant.

It is important to clarify that KLD Research and Analytics and the Domini Social Investments are separate organizations. The Domini Social Equity Fund is a passively managed index fund that draws upon the KLD database in its maintenance. The KLD database is not biased toward larger growth companies but toward large companies in general because historically it covered the entire S&P 500 companies (plus those smaller companies included in the Domini Fund).

Further, much of the *academic* research using the KLD database has used only S&P 500 companies (or samples thereof), rather than those companies in the Domini Fund or any other fund (unless specific comparisons are being made with respect to those companies). The financial press frequently compares the relative performance of the Domini Social Index and the S&P 500 Index as an indication of relative performance of a socially-screened and unscreened set of companies. Similarly, financial analysts and scholars compare fund performance on numerous bases as part of their regular work. Comparison of traditional and social funds is simply an extension of this activity.

Entine suggests that it is problematic that recent studies (especially those using the KLD database) have covered only the time period of the bull market of the 1990s. All research requires selection of time periods and variables of interest and there must be measures of the relevant variables that reasonably reflect the underlying constructs. Sometimes the practicalities of data gathering inhibit ‘theoretical justification’ of a particular methodology and a researcher must use data that are available and seem to measure appropriate constructs (the validity question discussed above). The KLD data and most social funds have only been in existence since the early 1990s, hence it would be impossible to backdate many studies as no corporate responsibility data are available for earlier time periods. Presumably, studies will be done of the bear market of the early 2000s, but as with all academic research, there are significant time delays between starting and publishing any research project.

Conclusion

In his critique, Entine seems to expect that all social issues, including fraud and malfeasance, internal board issues, executive greed, plus quality, product, and customer problems should be predicted. Yet determining where companies are failing to be responsible to specific stakeholders or nature is a difficult and constantly evolving task intimately tied to the scope, scale, pace, and complexity of modern corporations. Leaders within SRI and academics, like investigative reporters, struggle with this complexity and constant change just as much as the rest of us—and they, like all of us, sometimes miss important issues until some sort of scandal or problem brings attention to them.

Because corporate responsibility is inherently multi-dimensional, companies that are exemplary within one domain (e.g., environment or employee relations) can exhibit egregious behavior in another (e.g., community relations or product quality). Corporate practices affect stakeholders and the natural environment but no one practice can be said

to fully define a company's responsibility. Making that assessment, even if we all agreed on a definition, will always be a judgment call in the face of complexity and dynamism. There is no magic potion or formula that will, once and for all, allow a determination to be made that a given company *is* responsible or not. Further, a company's practices are likely to shift over time making any assessment today possibly erroneous tomorrow. But these complexities do not mean that social investors and researchers should stop trying to learn what responsible corporate practice is or that social investors should stop their pressure tactics to push for better responsibility or that academics should stop investigating key relationships related to corporate responsibility. It simply is to acknowledge the reality that life is complex.

The answer to some of Entine's questions and criticisms, then, is not to stop the social investment movement or the use of its data by academics, but as with quality management, to focus on a long-term process of continual improvement, both in research and in investment practices. Arguably, it is an on-going productive conversation among those with radically different points of view that allows positive changes in investment and research practice to be created. A generative dialogue allows multiple ideas and innovations, better research by investors, researchers, and academics, to flower, new questions to be asked and answered. It is that generativity that we need to seek and for which we thank Entine and other serious analysts of the emerging SRI and CR fields for fostering.

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