CHAPTER 1: INTRODUCTION

Corporations are currently besieged by expectations of not only economic but also social performance from various stakeholders, such as employees, customers, the community, and government at all levels. Corporations that do not respond to these pressures and social expectations risk losing legitimacy (DiMaggio and Powell, 1983). To address growing societal expectations of social performance, some corporations have adopted design features believed to be ‘ethical.’ However, the absence of normative principles has led to a patchwork formulation and implementation of design features for corporate social performance (CSP). Organization design has been defined as those macro-level properties that include the organization’s formal architecture, culture, decision-making norms, ethics, structure of employment relationship, and strategy (Daft and Lewin, 1990).

Although Freeman’s (1984) stakeholder theory constitutes a major theoretical advance in incorporating ethical considerations into the construction of organization design, little has been done to develop specific, normatively based design principles for corporations. Scholars have continued to call for normative underpinnings for the stakeholder theory (Freeman, 1994; Donaldson and Preston, 1995; Phillips, 1997); nonetheless, no specific design principles or organizational design features have been developed. Stephens (1991) developed the Rawlsian model of the organization. This model was further developed by Stephens, et al. (1997) suggesting design features appropriate to meet the design principles of a just organization. This study furthers this research by empirically testing these design principles.

The purpose of this study is to describe and test an ideal-type model of organization design to achieve the goal of justice. The model of a just organization (Stephens, 1991) is
based on John Rawls’ (1971) theory of justice and Max Weber’s (1978/1910) social action category of *wertrational* (or value-rationality) and is presented in Stephens (1991) and Stephens, et al. (1997). To test the model corporations are surveyed for the presence of specific design features to determine whether corporations with design features similar to those of the ideal type of just organization have better social performance, measured by higher CSP ratings, than those corporations whose designs deviate from the ideal type.

1.1 Problem Statement

Corporations are experiencing external and internal pressures to be socially responsible (DiMaggio and Powell, 1983; Evan and Freeman, 1988; Brenner and Cochran, 1991; Goodpaster, 1991; Carroll, 1995; Jones, 1995; Swanson, 1995). Corporations are increasingly besieged by public pressure to be ‘ethical’: by stockholders in the form of shareholder resolutions or divestiture of ‘unethical’ stocks such as those in tobacco or nuclear power utilities; by customers in the form of boycotts, “corporate campaigns,” and negative publicity; by the government in the form of regulation and legislation; by employees in the form of whistle blowing, sabotage, or turnover; and, by the communities in the form of an increase in taxes, a loss of tax breaks, or a loss of support for initiatives. Although the processes by which stakeholders exert pressures have been amply discussed (DiMaggio and Powell, 1983; Freeman, 1984; Evan and Freeman, 1988; Wood, 1991; Waddock, forthcoming), the specific designs that result as consequences of stakeholder pressure, the normative underpinnings of these designs, and their effectiveness have been underaddressed.
1.2 Problem Background

Since the Industrial Revolution, the bureaucratic organization form has been dominant for corporations. However, a number of efficient and effective organizations do not fit into this bureaucratic model. For instance, professional, political, collective, and religious organizations often do not fit into the three organization types discussed by Weber: traditional, charismatic, and rational-legal or bureaucratic (Satow, 1975; Rothschild-Whitt, 1979). Willer (1967) initially examined, and Satow (1975) has further discussed, the possibility of a fourth organization type, which Satow calls value-rational. While the rational-legal organization type (bureaucracy) is based in zweckrational authority, which stems from instrumental rationality, an organization type based on wertrational authority and value rationality is designed around an absolute goal or value.

In this study the characteristics of the value-rational organization are discussed and an ideal type of a value-rational organization is presented.

Business ethics scholars, including Freeman himself, call for the development of normative cores or justifications for stakeholder theory (T. Donaldson, 1989; Shepard, Shepard, and Wokutch, 1991; Freeman, 1994; Donaldson and Preston, 1995; Phillips, 1997). The suggestions for such a normative core have included the doctrine of fair contracts, feminist standpoint theory, and ecological principles (Freeman, 1994), the modern theory of property rights (Donaldson and Preston, 1995), and the principle of fairness (Phillips, 1997). Although any value or principle -- aesthetic, epistemological, hedonistic, or ethical -- may be selected as terminal by an individual or a group and thus be used in the design of a value-rational organization, Stephens and colleagues (Stephens,
1991; Stephens, et al., 1997) chose the ethical value of justice (e.g., Kant, 1938/1855; Hume, 1965/1777; Rawls, 1971) as the terminal value around which to construct organization design.

Justice, as an organizing principle, has been described as the value that best captures organizations’ efforts to meet the needs of a wide variety of internal and external stakeholders (Keeley, 1978, 1988; Freeman, 1984; Donaldson and Preston, 1995). By addressing the distribution of costs and benefits, justice also addresses the main concerns of corporate social responsibility (CSR). The concept of justice aids in the consideration of (a) what stakeholders would want from an organization, and (b) how an organization may distribute cost and benefits amongst stakeholders. According to Rawls (1971: 4), when considering how social institutions ought to be structured, “a set of principles is required for choosing among the various arrangements which determine the division of advantages and for underwriting an agreement on the proper distributive shares. These principles are the principles of social justice: they provide a way of assigning rights and duties in the basic institutions of society and they define the appropriate distribution of the benefits and burdens of social cooperation.” A driving force behind the stakeholder movement (as seen by Etzioni, 1988 and Coleman, 1990) is the minimization of negative externalities, such as pollution or third-party social costs; justice is explicitly concerned with this minimization of negative, social externalities. Moreover, the construct of justice as an organizing principle for corporations has special parallels to the construct of organization design for corporations. Not only do both justice and design encompass issues of division of labor, hierarchy, and reward systems, but economic institutions are seen as a major arena in which justice pertains.
1.3 Framework of the Study

The following sections briefly outline the framework of this study. In order to test empirically the normative design principles suggested here, an ideal type of just organization must be developed. The role of justice is examined as a normative theory underlying stakeholder theory and compatible with corporate social responsibility. Weber’s *wertrational* social action category is used as a starting point for developing an ideal type of the value-rational. John Rawls’ (1971) *Theory of Justice* provides the specific terminal value -- justice -- from which the principles for a just organization are derived. These design principles are used to construct a theoretical ideal type which provides the basis for the empirical testing further described in Chapter 3.

Corporations were surveyed to determine the extent to which they embodied these design characteristics, and the deviation of each responding corporation from the ideal-type profile was calculated (Alexander and Randolph, 1985; Drazin and Van de Ven, 1985). This deviation distance was then compared to the social performance measurement to test empirically the design-performance relationship (Van de Ven and Drazin, 1985; Gresov, Drazin, and Van de Ven, 1989; Gresov, 1989, 1990). The context, or environment, of the corporations was taken into account as control variables.

1.4 Definitions

This section presents construct definitions for key terms utilized in this study:
organization design, equifinality, normative design principles, terminal value or absolute goal, ideal type and ideal-type profile, corporate social responsibility (CSR), and corporate social performance (CSP).

1.4.1 Organization Design

Contingency theory holds that there is no one best structural design for an organization, and the effectiveness of a design is related to the specific environment of the organization. Depending on the nature of the task, the size, and other macro-properties of the organization, some structural elements may be more effective than others (Lawrence and Lorsch, 1967; Perrow, 1967, 1970; Thompson, 1967; Galbraith, 1973, 1977; L. Donaldson, 1996). Much of the past work in contingency theory focused on structural elements of the organization, or those formal aspects able to be shown on an organizational chart (e.g., Blau, Heyderbrand, and Stauffer, 1966; Pugh, et al., 1968; Pugh, Hickson and Hinings, 1969; Goldner, 1970; Blau, et al., 1976; Pugh and Hickson, 1976; Adler, 1990; Huber, 1990). This is true in the field of business and society as well as in organization theory: “Like most organization theorists, business-and-society researchers examining the relations between macro-organizational characteristics and organizational effectiveness (in business-and-society terms, corporate social performance) have chosen formal structural properties of the firm as their dependent variable” (Stephens, 1991: 9).

In contrast, organization design includes both structural and processual elements. Although it is considered an emergent and dynamic characteristic or attribute of an
organization, design is fairly stable across time and situation (Mackenzie, 1991; Stephens and Lewin, 1992). Organization design encompasses social architecture: the organization’s climate, decision-making norms, information processing, structure of employment relationship, strategy, and ethics (Daft and Lewin, 1990). In this study organization design, as it relates to social performance, consists of structural configuration, human resource policies and incentives, control systems, strategic planning, and organizational ethos (Lewin and Stephens, 1994).

1.4.2 Equifinality

Contingency theory predicts that organizations can achieve the same level of performance using different design features because the organizations have different ‘contingencies’ -- differences or variations in organizational environment. The concept of equifinality means that organizations also can achieve the same level of performance using different design features even if the contingencies are the same. These different design features achieve the same functional purpose(s) and lead to performance, and, thus, the design features are functionally equivalent. Van de Ven and Drazin define equifinality as “a feasible set of equally effective, internally consistent patterns of organization context and structure” (1985: 335).

The concept of functional equivalence, introduced by Merton (1967) and furthered by Giddens (1979), means that the organization’s functional needs may be met through a variety of structures. Therefore, firms may perform well because their functions are performed satisfactorily, but these functions are satisfied by different
organizational structures. For example, promoting employee participation in decision-making and allowing for employee voice and moral agency may be accomplished at firms in different ways, such as any one or combination of the following design features - hotline, employee/management committees for ethics and/or strategic planning, open-door policies, and employee representation at the board level of the firm.

Gresov and Drazin argue that equifinality “arises because there is a functional correspondence between the demands placed on the organizations by its contingencies and the organization’s capacities to meet those demands” are met by different structural alternatives (1997: 408). This functional equivalence view of design considers “the degree of conflict of functional demands together with the latitude of structural options available” (Gresov and Drazin, 1997: 403). In this study, equifinality may occur with firms that are achieving a similar level of social performance, but the firms use different organizational design features or structural alternatives to achieve the same functions and yield the same result.

1.4.3 Normative Design Principles
Normative design principles are those that are based on ethical standards. They prescribe how organizations ought to be designed to achieve certain substantive ends (i.e., do x and y because it is the right, or moral, thing to do).

1.4.4 Terminal Value or Absolute Goal
A terminal value, or absolute goal, is an end that is sought in and of itself. Aristotle
(1985/ca. 328 BC) identified instrumental versus terminal values, and Weber (1978/1910) made a distinction between two types of rationality: *zweckrational* (instrumental rationality, or means-ends teleological relations) and *wertrational* (value-rationality, deontological values or goals intrinsically desired). Bureaucratic organizations are designed around instrumental rationality, or means-end consideration. *Wertrational* organizations are those designed to support terminal values, such as justice. As such, these organizations may have bureaucratic structures, but only to the extent that bureaucracy is consistent with the terminal value(s). An illustration from Stephens elucidates the difference between these two type of organizations: “Honesty is the best policy in strictly instrumentally-rational, *zweckrational*, organizations if and only if honesty leads to desired outcomes; in contrast, honesty is the best policy in value-rational, *wertrational*, organizations if and only if honest behavior is deemed to be intrinsically moral” (1991: 21).

### 1.4.5 Ideal Type and Ideal-Type Profile

Holdaway et al. (1975) define an ideal type as a categorization of phenomena according to some generalized pattern of similar characteristics shared by all members of a group. Weber (1978/1910) formulated the construct of an ideal type of bureaucratic organization. This model of bureaucratic organizations is not considered to be ideal in the sense of being optimally desired, but rather “ideal in the sense of being a pure representation of a theoretical model that was unlikely to find full expression empirically” (Stephens, 1991: 19). For another example, an ideal type for the American
family is one male parent, one female parent, and their two children. This is not a
definition of the American family nor does it indicate that this is a preferred or somehow
‘better’ family, as there are no normative implications in an ideal type. Rather, many
families can and are described as variations of this ideal type.

In empirical research, an ideal-type profile is used as a pure form abstraction or
description for the purposes of comparison with actual entities. Salancik and Leblebici
(1988) claim that ideal-type specifications [ideal-type profiles] are very useful in
empirical research because they provide a theoretically consistent fixed point against
which attributes of actual organizations may be measured. According to Stephens (1991)
such a fixed point (principle) is especially crucial in research that has normative
implications; in the absence of a stable principle, the work is strictly empirical -- based
purely on what is rather than on some relation between what is and what ought to be.

1.4.6 Corporate Social Responsibility

An extensive body of literature addresses corporate social responsibility (CSR), which is
the concept “that businesses are accountable for the effects of their actions and should
seek socially beneficial results as well as economically beneficial results” (Post et al.,
1996: 677). The debate on CSR began with Berle and Means exploring the nature of
corporations as it changed from early sole proprietorship to the increasingly dispersed
ownership in the 1900s (Berle, 1931; Dodd, 1932). The separation between property and
responsibility grew as those with the property (stockholders) became less involved in
corporate decision making. Thus, as corporate power grew, corporate management seized
the power but not the responsibility. The debates continued in the 1940s and 1950s as people questioned the traditional assumptions of classical economic theory and the growing power and influence of corporations (e.g. Bowen, 1953). In 1968, Berle and Means updated the arguments on CSR by concluding that corporate management must now “take account of philosophical considerations. They must consider the kind of community ... which they intend to help to construct and maintain” (1968: 5).

Scholars from a variety of disciplines in the 1960s and early 1970s began to examine the changes in society and in business and began to formulate a concept of businesses’ responsibilities to the public or society. McGuire’s idea of social responsibility is that a “corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations” (1963: 5). There were noticeable changes in the growth of corporations, corporate leadership, the increase in technology and technostructure, and the elites (Heilbronner, 1966; Galbraith, 1967). This early conception of CSR (e.g., McGuire, 1963; Cheit, 1964; Greenwood, 1964; Emery and Trist, 1965; Olson, 1965; Davis and Blomstrom, 1966; Elbing and Elbing, 1967; Vatow and Sethi, 1969; Lodge, 1970). This construct of corporate social responsibility or CSR was termed CSR1 by Frederick (1978). CSR1 consists of abstract principles, a moralistic tone, and the view of social issues as separate, external phenomena.

In an attempt to overcome some of the speculative generalities and embedded dilemmas of CSR1, the next development, corporate social responsiveness or CSR2 (Frederick, 1978), shunned philosophy for a more managerial approach and practical
responses to tangible forces. As Frederick (1978) describes CSR2, it was seen as a systems perspective, encouraging an open and proactive stance, and relied on institutionalized company policy. Scholars tried to move the area towards a more coherent sphere of issues and away from an ideological or philosophical bent towards a pragmatic and analytical approach. In addition, researchers were “developing methods and structures for introducing the results of social issues analysis into routine business decision-making” (Preston, 1986: 6). Some of the important work in this area addressed motives for CSR2, the voluntariness of CSR2, and structures, structural frameworks and processes such as social audits to achieve CSR2 (see the Committee for Economic Development [CED], 1971; Manne and Wallich, 1972; Chamberlain, 1973; Ackerman, 1975; Backman, 1975; Sethi, 1975; Steiner, 1975; Stone, 1975, Preston and Post, 1975; and, Ackerman and Bauer, 1976). Some examined CSR2 at the single-firm level (Ackerman and Bauer, 1976), while others examined the macro-organizational dimension for structural configuration, processes, and procedures (CED, 1971; Preston and Post, 1975).

Although CSR2 places much emphasis on the need for tools, techniques, organizational structures, behavioral systems, and internal and external constraints on organizational responsiveness, it is not an explicit value theory and advocates no specific set of values for business to follow. As Frederick notes, “the result is an implicit reference on established organizational values and prevailing, if changeable, societal values” (1978: 7).

The concept of CSR, in a sense, came back to looking for its normative
underpinnings with the emergence of CSR3 (corporate social rectitude) as termed by Frederick (1986). This current version “embodies the notion of moral correctness in actions taken and policies formulated” (Frederick, 1978: 7). As Frederick accounts: “We want corporations to act with rectitude, to refer their policies and plans to a culture of ethics that embraces the most fundamental moral principles of humankind” (1986: 18). CSR3 recognizes that values are an explicit and indispensable part of our work and businesses and they must be identified. This study draws on a normative basis appropriate for CSR3 as it tries to draw on moral principles for business to operate in society, not separate or above society (see Separation Thesis explanation in Freeman, 1994). One of ‘the most fundamental moral principles of humankind’ in the design of corporations is justice (compatible with the stakeholder framework and efficiency) as described in Chapter 2.

1.4.7 Corporate Social Performance

If corporations have goals other than maximizing shareholder value, how can the performance of these other goals be measured? The traditional measure of organizational effectiveness is economic performance -- shareholder return, financial ratios, and financial growth and stability. How corporations meet the above-described social expectations or goals is considered to be corporate social performance. How it is measured varies widely and is still in the developmental stages of our understanding. According to Frederick, corporate social performance or CSP is how well corporations use their resources “for broad social ends, not and simply for the narrowly circumscribed
interests of private persons and firms” (1960: 6).

Initial work in CSP focused on the social audit as a tool to measure CSP as financial audits measured financial performance. Two key books appeared on the subject (Bauer and Fenn, 1972; Blake, Frederick, and Myers, 1976), and scholars worked to refine the areas of interest and the criteria for performance. Wokutch and McKinney (1991) discuss the movement from an overall audit of social performance to a more specific, goal-oriented social process audit.

CSP became viewed as a multi-dimensional construct, and Wood (1991) built on previous CSP models (Frederick, 1960, 1978, 1986; Sethi, 1975; Carroll, 1979; Wartick and Cochran, 1985) to build an integrated, fluid framework from which to assess CSP. Wood’s model (1991) consists of the principles of social responsibility, the processes of social responsiveness, and the policies, programs, and observable outcomes in the firm-society relationship. However, how these policies, programs, and observable outcomes have been measured varies within the business-and-society field. Wokutch and McKinney (1991) summarize and compare the behavioral and perceptual measures of CSP as well as the strengths and weaknesses of CSP measurements. Perceptual measures of CSP are subjective assessments of how socially responsible a firm is based on reputation or criteria deemed important by the rater. For example, the Fortune list of socially responsible firms is based on surveys of top executives. In contrast, behavioral measures of CSP are a group of criteria that address specific dimensions, stakeholders, and programs and that provide a more objective standard more of a list of criteria. The Kinder, Lydenberg, and Domini, and Company, Inc., database (KLD) established several
dimensions of CSP (Community, Diversity, Employees, Environment, Product, Non-U.S. Operations, Other, Alcohol, Gambling, Tobacco, Nuclear, and Military) and developed their own set of criteria with which to rate each firm. The criteria are intended to be objective, although some of the underlying assumptions are value-laden (Wokutch and McKinney, 1991). However, the KLD database currently represents the most formalized and standardized listing of social screening criteria for a wide range of industries and firms.

Attempts have been made to measure CSP, by Fortune magazine in their reputational survey and by the Council on Economic Priorities in Shopping For a Better World; however the former has been found to have a ‘halo effect’ from financial success (summarized and corrected for in Brown, 1996) and the latter based on separate social issues and subjective criteria. The KLD database was created by Kinder, Lydenberg, and Domini, and Co., Inc., to provide information for social investors. It is used to screen out those funds which do or do not meet certain social screens, depending on the preference of the individual investor or fund manager. While these databases have furthered the empirical research on CSP, the databases were not necessarily developed from a coherent, normative philosophy about societal expectations of corporations.

1.5 Design Dimensions of a Just Organization

Max Weber’s work provides a starting point for inducing the specific content of an ideal-type organizational design that promotes justice. Weber (1978/1910) claimed that bureaucracy was the form of social organization that carried out the economic goals of the
then-emerging modern business corporation. However, a philosopher as well as a sociologist, Weber expressed profound misgivings about the impact of bureaucracy upon the human soul (1978/1910; DiMaggio and Powell, 1983). He believed that bureaucracies could be deeply alienating and stultifying to individuals. An examination of Weber’s social action categories and organization types shows a “missing type” (Willer, 1967; Satow, 1975). In this study, I propose that the missing type, the *wertrational*, or value-rational, organization is an appropriate starting point for organizations that are designed to achieve extraeconomic as well as economic goals (Stephens, 1991; Stephens, et al., 1997).

Rawls’ *Theory of Justice* (1971) demonstrates special affinity for usage generally in the business-and-society field, and particularly in the context of corporate social responsibility and performance.¹ Rawls argues that his model can be used to determine the design of economic organizations: “A definite scheme of ... institution is embedded in (the) principles of justice” (1971: 451). Also, he says, “the choice of (economic) institutions involves some view of the human good and of the design of institutions to realize it. This choice must, therefore, be made on moral and political as well as economic grounds. Considerations of efficiency are but one basis of decision” (1971: 259). Rawls’ concept of justice is compatible with rather than antithetical to the concept of efficiency: “Some measure of agreement in conceptions of justice is ... not the only prerequisite for a viable human community. There are other fundamental social problems, in particular those of coordination, efficiency, and stability. ... The execution of plans of individuals should lead to the achievement of social ends in ways that are efficient and consistent with justice”

¹ Appropriately, Rawls’ *Theory of Justice* (1971) was recognized by the Social Issues in Management (SIM) Division of the Academy of Management as a significant and seminal work in the field and was awarded the 1997 Book Award from the SIM Division.
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(1971: 6). Efficiency, of course, is crucial to the survival and prosperity of businesses. Organizations may be designed around other values or normative cores [as addressed by Freeman (1994)]. However, justice seems an apt starting point for considering how organizations might be designed to meet social performance goals.

1.6 Justice and Value-Rationality

Rawls emphasizes that the form of rationality embodied in justice extends beyond means-ends rationality and economic efficiency; his construct centers around values that would be chosen not only as means towards ends, but that themselves have intrinsic worth. Justice and value rationality can be argued to constitute the basic principles that undergird the construct of corporate social responsibility (CSR). Although economic theories (e.g. Friedman, 1970) hold that the sole duty of corporations is to maximize shareholder wealth within the boundaries of the law, the original SEC charter explicitly states that corporations were to operate at the behest of society (The Nation, 1998). In keeping with the SEC charter, CSR research focuses on the obligation of corporations to society in both economic and extraeconomic terms.

Rawls’ theory of justice (1971), with its emphasis upon levels of standardization, formalization, and hierarchy, bears striking structural parallels to Weber’s (1978/1910) theory of bureaucracy. Justice and value-rationality are concepts of particular strategic importance as society increasingly expects corporations to be socially responsible (Perrow, 1972; Vogel, 1978; Freeman, 1984; Wood, 1991; Frederick, 1995; Carroll, 1996; Post, et al., 1996), and investments are sometimes made on the basis of social as
well as financial performance (Kinder, Lydenberg, and Domini, 1992; Cavanagh, 1998; McVeigh, 1998).

1.7 The Relation Between Organization Design and Corporate Social Performance

The predominant definitions of for-profit organizational goals and performance are economic in nature -- efficiency, economic growth, and economic survival (Lewin and Minton, 1986). Organization theorists (e.g. Daft, 1992) recognize that the purpose of organization design is to carry out the organization’s goals. Thus, organization design must be congruent with goals if the organization is to perform effectively. Current theories of organization design take into account the economic performance goals of efficiency, growth, and survival, but they fail to address the extraeconomic goals of CSP. Therefore, existing prescriptive design principles (e.g., Lawrence and Lorsch, 1967; Duncan, 1972) -- while useful for the attainment of economic goals -- do not identify how to attain CSP goals. Furthermore, little research has been done on the relationship between organization design and CSP: The few published studies that have been conducted focus solely upon the efficacy of specialized boundary-spanning departments (e.g., public affairs, corporate relations) in dealing with the firm’s external constituencies (Sonnenfeld, 1982; Kohls, 1985; Miles, 1987; Bambri and Sonnenfeld, 1988; Meznar and Nigh, 1993; Greening and Gray, 1994).

2 According to the Social Investment Forum, “more than $1 trillion in assets are now under management in socially and environmentally responsible portfolios and mutual funds” (McVeigh, 1998). At the same time these assets grew from $639 billion to 1.185 trillion (85% increase), the number of screened funds have gone from 55 to 144 (162% increase). The number of research centers and non-profit organizations focused on business ethics, CSR and CSP has been increasing. Some of these organizations (and the founding dates) are: Business Roundtable (1972), Business Enterprise Trust (1989), the Council on Economic Priorities, and Business for Social Responsibility (1993).
According to business-and-society scholars, organization design is a key determinant of CSP (Sethi, 1975; Ackerman and Bauer, 1976; Wartick and Cochran, 1985; Reed et al., 1990; Buchholz, 1992). As Buchholz says, ‘Managers ... need to know what organizational structures integrating public policy and traditional management concerns are necessary to enable the corporation to respond more effectively to public issues that affect it significantly. Organizational structures that are developed to carry out the company’s ... social objectives must be consistent with strategies that have been chosen to deal with these issues” (1995: 15). Therefore, not only should a corporate organization be designed to achieve profits and survival, but also to achieve the extra-economic goal of CSP.

Currently, many texts and business publications provide a list of design features for a corporation to be more ‘ethical’ or to improve its corporate social performance (Buchholz, 1995; Hitt, Ireland, and Hoskisson, 1995; Post, et al., 1996; David, 1997; Bartol and Martin, 1998). However, based only on descriptions of what firms are doing and what the public and the government think are appropriate design features, the prescribed design features lack a theoretical and normative basis.

1.8  Research Questions

After developing the design dimensions of the ideal-type just organization, I tested the relation between organization and CSP by examining the design features of corporations and their particular CSP ratings as assessed by KLD. Three research questions drive the project:

1. What is the overall ideal-type design profile of a just organization?
2. Do just organizations (i.e., organizations that are fairly close to the ideal type) have better CSP ratings than those organizations that deviate from the design features of the just organization?

3. Given equifinality, is there only one ideal-type profile for the just organization or are there several feasible sets of equally appropriate, internally consistent patterns of organization design based on contextual dimensions such as size or industry?

1.9 Significance of Study

This study explores the normative core of the stakeholder framework and address a need for normative organization design principles called for by Freeman (1994). This study addresses how corporations should be designed to achieve the terminal goal of justice. A model of normative design principles based on Rawls’ (1971) theory of justice and Weber’s wertrational authority was developed by Stephens and colleagues (Stephens, 1991; Stephens, et al., 1997). The value added to the business ethics area is the refining and testing of this model by examining the organization design of corporations and their social performance ratings. Although the empirical study is applied to for-profit corporations, the general model may potentially be applied globally and in economic systems other than the capitalist one which prevails in the U.S.

Scholars in the social issues in management field have studied particular design features that are presumed to promote ethical outcomes for organizations; however, these design features have not been examined for, or derived from, normative justifications.
This study is the first to test a model of how normatively-based design principles relate to the outcome of CSP.

If the hypotheses are supported, then the design features which support the ideal type of just organization are related to social performance. Many of the design features maintained by texts and private consulting firms are consistent with the stakeholder framework and theory of justice and are associated with a better social performance rating, or at least reputation. If there are differences among industries, for example equifinal ideal types, that would be consistent with contingency theory that the designs would differ, likely based on context, environment, and stakeholder exposure.

If the empirical study does not demonstrate a positive relationship between design and social performance, one explanation may be flaws in CSP measurement at this time. The CSP databases may not capture the construct of CSP and instead may be reacting to the separate concerns of investors or consumers that have no underlying normative links or are unrelated to overall CSP and based on isolated issues brought out by specific interest groups and publicized. Another possibility is that there may be institutional pressures for corporations to adopt design features without supporting the value of justice in its ethos or without distinction of the effectiveness of such features.

1.10 Plan of Study

This first chapter sets the stage for the study by introducing the purpose, theoretical constructs of organization design and CSP and the relation between the two, and the research questions of the study.
The second chapter of the dissertation describes the design principles for a just organization and constructs an ideal type of just organization. The chapter first describes the normative basis for the design principles based on the concept of stakeholders (Freeman, 1984), Rawls' theory of justice (1971), and Weber's organization types (1978/1910). The chapter then addresses the concept of CSP, its historical development, current research on the topic, and outcome measures available in publicly-available databases. Following the description of a just organization and derivation of a just organization in principle, the second chapter describes a method for evaluating an organization based on proposals by Van de Ven and Ferry (1980). The second chapter then describes the pertinence of this study to the organization theory literature -- particularly contingency theory and institutional theory. For example, contingency theory suggests that there may not be just one ideal-type just organization; rather, the organization design may be influenced by the size or industry, creating equifinal ideal types. Institutional theory suggests that firms may adopt design features based on external pressure (in this case stakeholder pressure) regardless of the economic rationality of the feature. The second chapter ends with a set of hypotheses to predict corporate social performance based on organization design.

The research design to test empirically the relationship between design and performance is presented in the third chapter. A discussion of the methodology (including statistical techniques), the variables, the sample, and the survey instrument are included. The results of a pilot study of the survey instrument are included in this

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3 Van de Ven and Ferry (1980) called for analysis of contextual and design dimensions of an organization's impact on society, but they did not specify the outcome measure.
chapter.

The findings of the study are provided in the fourth chapter with an analysis of the data. The characteristics (size and industry) of the response population are described, the independent variables of design are investigated, and the relationship among the independent and dependent variables are examined. In addition to testing the primary research question of the design-performance relationship for corporations, the secondary research question of possible equifinality is addressed in \textit{a posteriori} analysis. An analysis of the design-performance relationship for each industry is conducted, as well as a brief examination of the stakeholder-specific design features and the stakeholder-specific design dimensions.

The fifth chapter addresses the implications and limitations of the results reported in the fourth chapter. In this decade, business consulting firms (e.g., KPMG Peat Marwick and Coopers & Lybrand) have developed business ethics consulting programs which focus on the establishment of several of these design features. The relationship of these features, the corporate environment, and social performance ratings are discussed. Finally, suggestions for future research regarding organization design and corporate social performance are provided.