CHAPTER 5: DISCUSSION AND CONCLUSIONS

This chapter provides an analysis of the research questions, a discussion of the results, a list of some of the limitations of the study, and suggestions for future research.

5.1 Research Questions

5.1.1 Ideal Type of Just Organization

What is the overall ideal-type design profile of a just organization?

An ideal-type profile of a just organization was identified. This theoretical profile consisted of five design dimensions and included the following criteria:

1. Structural-Configuration Design Dimension: The firm has stakeholder representation of at least four stakeholder groups, not including stockholders, at the board level. These stakeholder groups include consumers, suppliers, employees, the community or the public interest, the natural environment, women, minorities, and the industry (e.g. trade association). In addition, the firm has at least three of four design features at the management level to promote or encourage ethics and social responsibility: ethics department or functional area, ethics officer, and a management committee for ethics with either non-management employee or with outside members on the committee.
2. Human Resource Policies and Incentives (HRPI) Design Dimension: The firm has at least four of the five following design features to provide voice, opportunity, moral agency, and inclusion in the strategic management and decision making processes:

organization-wide open-door policies, an ethics hotline, stakeholder impact (employees) integrated into strategic planning, employees are on a management committee for ethics and/or social responsibility, and an outside member of the board from an employee interest group or labor union.

3. Control-Systems Design Dimension: The firm has both an ethics or social audit and a compensation, evaluation, and incentive plan for its managers that incorporates extra-economic goals (such as customer satisfaction, environmental performance, community involvement, or employee issues) as well as economic goals.
4. Strategic-Planning Design Dimension: There are at least four stakeholder groups, not including stockholders, represented by outside members on the board or by inclusion in the strategic planning process.
5. Organizational-Ethos Design Dimension: The firm has a corporate credo, mission or vision statement, or code that emphasizes avoidance of harm to (or minimization of harm or protection of) at least two stakeholder groups (not including stockholders) and is communicated through at least two forms of communication.

5.1.2 Organization Design and Corporate Social Performance (CSP)

Do just organizations (organizations that are designed around the value of justice for their stakeholders) have better CSP ratings than those organizations that do not have the design features of just organizations?

I hypothesized that corporations designed around the value of justice have better

CSP ratings than those corporation which do not have the design features of a just organization. However, the results described in Chapter 4 do not support this hypothesis. Firms with more design features of the just organization did not have significantly higher CSP scores. The individual design dimension measurements (or ratings) also were not correlated with the CSP scores. A regression analysis of the deviation distance and CSP yielded an R^2 of 0.000. However, a regression analysis of all the firms, accounting for size and deviation distance, results in only a portion (6.3%) of the variation accounted for. Of that variation, size was the most influential variable, as its coefficient was significant ($p < 0.01$) and the coefficient for deviation distance was not significant.

When industry was considered, the deviation distance and the individual design dimension ratings still did not correlate significantly with the CSP scores (significance measured at $p < 0.05$). Regression analyses by industry on size and deviation distance indicated that what variation was accounted for by the two variables was primarily accounted for in the size variable, since the size variable was more likely to have a significant coefficient. Therefore, there was no indication that the organization design as expressed in this study was related to CSP. However, there may not have been a sufficient number of respondent firms within each industry category to show significant results since the number of respondents within each industry ranged from 4 to 25.

Because the organizational-ethos design dimension was not correlated with the other four design dimensions, which were strongly correlated with each other, I calculated a second distance measure. This measure encompassed only the four design dimensions and excluded organizational ethos. In addition, I refined the CSP score by

excluding five of the KLD Dimensions, Diversity, Non-US Operations, Alcohol/Tobacco/Gambling, Military, and Nuclear, because they were not directly related to a specific stakeholder group as the other KLD dimensions were (e.g., Employees and Community). Even with these modified design and performance measures, there was no significant ($p < 0.05$) correlation, although the correlation that was noted was higher than the previous one. Similar findings appeared for the firms when categorized by industry.

5.1.3 Equifinal Ideal-Type Profiles

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

Based on different macroorganizational context dimensions, such as industry or size, it was hypothesized that there may be equifinal ideal types. In other words, there would be several ideal-type profiles, still fitting the general model of the just organization and its design principles, but varying for corporations depending on their industry and size, predicted by contingency theory, largely because the stakeholder exposure varies among industries.

CSP scores did vary significantly among industries. This may be due to variations in the design dimensions, the independent variables, that are likely institutionally determined. For example, natural resource companies and utilities are more likely to have

a formal code that addresses the firm's interaction with the environment. Drug and medical service companies are more likely to include the avoidance of harm to the consumers in their credo than a computers and technology firm.

Size, measured by the number of employees, was strongly and negatively correlated with CSP scores. As would be predicted by contingency theory, size was also significantly related to three design dimensions: structural configuration at 0.316** ($p < 0.001$); control systems at 0.353** ($p < 0.001$), and strategic planning at 0.218* ($p < 0.05$).[26] This indicates that larger companies have more structural elements and formal processes or programs to address stakeholder concerns and issues of social responsibility than smaller firms. Whether the firms are large enough that they require the formalized structures and processes, or the larger firms are in the public eye (the spotlight) more and so must have some signal that they are responsive to societal expectations, the larger firms are more likely to score higher on the design dimensions and have a lower deviation distance. Although the firms may be closer to the ideal-type profile than smaller firms, the CSP scores are not necessarily better.

5.1.4 Individual Stakeholder Dimensions

Although not originally hypothesized, I expected the presence of specific "stakeholder-oriented" design features (e.g. an employee representative on the Board of Directors) to be positively related to the individual stakeholder CSP dimensions (e.g. KLD Employee Dimension). The presence of design features for inclusion and consideration of various

[26] For this chapter, * = $p < 0.05$; ** = $p < 0.01$; and, *** = $p < 0.001$.

stakeholder groups should increase the attention, regard, advisement, and compensation (fair distribution of benefits), as well as opportunities for voice and moral agency. The firms with more design features for or including a particular stakeholder were compared to those with less of these features for a difference in CSP scores along the specific stakeholder dimension.

5.1.4.1 Community

Only one design feature was correlated with the KLD Community Dimension - the presence of an outside board member from a public-interest group. However, when the six design features related to the community were aggregated and compared to the KLD Community Dimension, the aggregate community score was correlated significantly ($p < 0.023$) but only moderately at 0.225*. The coefficient of the aggregate score was significant in a regression analysis including size for the KLD Community Dimension, although the adjusted R^2 was low, 0.041. This indicates that there is a mild relationship between the presence of community-specific design features and the KLD Community Dimension rating, or the community portion of CSP.

5.1.4.2 Diversity

Two design features were correlated with the KLD Diversity Dimension -- the presence of an outside board member from a minority group and a committee or appointed representative for minority issues at the board level. The four design features related to diversity were aggregated and compared to the KLD Diversity Dimension. There was a

significant correlation of 0.276** ($p < 0.005$). The coefficient of the aggregate score, or design measure for diversity, was significant in a regression analysis including size. Although the adjusted R^2 was only 0.080, the coefficient was significant at 0.007. This indicates that there is a significant relationship between the presence of diversity-oriented design features and the KLD Diversity Dimension rating.

Three design dimensions were correlated with the KLD Diversity Dimension: structural configuration, control systems, and strategic planning. However, this may be caused by the correlation with size -- those larger firms are more likely to have formal mechanisms such as minority representation on the board of directors than smaller firms or that the larger firms are more 'visible' to the public.

5.1.4.3 Employees

Only one of the six design features associated with employee representation and inclusion were correlated with the KLD Employee Dimension: The presence of an outside board member from an employee interest group or a labor union was correlated at 0.255* ($p < 0.010$) [and there were only five firms which had this feature].

The design features related to employees and employee concerns were aggregated and compared to the KLD Employee Dimension. There was a very weak correlation of 0.176 at a significance level of 0.077. When regressed with size for the KLD Employee Dimension, the employee aggregate score was found not to be significant. This indicates that there is no significant a relationship between the presence of employee-related design features and the KLD Employee Dimension rating.

Two design dimensions, HRPI and strategic planning, were correlated with the KLD Employee Dimension, at 0.197* ($p < 0.047$) and 0.225* ($p < 0.023$), respectively. The design dimension HRPI does not include one of the design features included in the employee aggregate score -- a committee or appointed member of the board for employee issues. Some information from the respondents indicated that some of the affirmative responses to that item were based on the Vice President for Human Resources being on the Board of Directors or that a senior manager from human resources reported to the board. So, HRPI may be a more appropriate measure of firms actually incorporating employee voice, representation, and concerns. Similarly for the strategic-planning design dimension, firms with an outside member of the board representing employees and those that actively consult with and include employees in the strategic planning process are more likely to have policies and programs considered to be employee-friendly and thus a higher CSP score for employee relations and employee issues.

5.1.4.4 Environment

Only three design features were identified as specifically addressing the environment. The aggregate score of the features is correlated with the KLD Environment Dimension at 0.214 ($p < 0.031$). As discussed later in the future research section, a more in-depth analyses of design features addressing environmental issues may be more associated with the KLD Environment Dimension. This brief exploration indicates that a greater sample size, especially in each industry category, may indicate a higher and more significant correlation between structural and processual elements of organization design for

protection of the environment and the perceived environmental responsibility and performance of the firms.

5.1.4.5 Product

Of seven design features identified as product- or consumer- related, only one was correlated with the KLD Product Dimension. The presence of a committee or an appointed board member for product issues was the KLD Product Dimension at 0.300** ($p < 0.002$). The design features were aggregated and compared to the KLD Product Dimension, but there was no correlation or association. Only the control-systems design dimension was correlated with the aggregated product score, but that may be due to the nature of the product (e.g. drug and medical service firms are more likely to have control systems and be more responsive on product safety and working conditions).

5.2 Discussion of Findings

Why were firms with more of the design features of a just organization not rated higher as a group than those firms that had fewer of the design features? There are several possible explanations that center around two main problems. The first problematic area is the measurement of CSP. This area is relatively new (about 30 years) and there is no one widely-accepted way to measure CSP, as there are widely-accepted accounting practices and financial measurements of economic performance.

A second possibility is that the design features themselves are in place because of external expectations, or through institutional mimetic isomorphism (DiMaggio and

Powell, 1983), and are not necessarily effective. If they are not effective, performance would not be affected by the presence or absence of these features.

A third explanation may be related to the setting of standards for establishing performance criteria. If cause-effect relations and standards of performance are unclear (as they are for social performance), social tests are used to determine effectiveness (Thompson, 1967). Upheld by consensus or authority, social tests gain legitimacy by who sanctions them; therefore, in an institutionalized environment, these organizations rely on these social tests to validate their effectiveness or performance. The CSP measures studied here are a social test, with corporations and investors relying "on external criteria of worth" (Meyer and Rowan, 1977: 350).

5.2.1 CSP Measurement

The KLD ratings may not be truly representative of a firm's social performance, whether that performance is based on a pattern of consistent widely-held societal expectations or the goals of the corporation itself. The KLD CSP rating began as a response to the growing number of social/ethical investors, most of whom invested according to a firm's performance on a few particular issues, such as the manufacture of tobacco, poor working condition, or charitable giving. The 'popular' social issues became the social screening criteria. As social and ethical investing become more influential, additional social screening criteria may be incorporated. However, the determination of a screening criterion appears to be primarily a public reaction to a social issue.

The KLD CSP ratings may also not be objective enough. Because the information

is based on publicly-available information sources and there is limited reporting by the firms, the access to information is limited and possibly biased. The age of a company may also have a bearing on the CSP scores. Although age of the firm was not a variable in this study, it is possible that companies which started in the 1980s and 1990s were more exposed to the concept of corporate social responsibility and the appropriate ‘’buzzwords’ to incorporate them into the organization design.

There is also a problem with the role of reputation in the ratings. It may be difficult for a firm to overcome a negative reputation. For example, the negative reputation of certain industries, particularly the natural resource industry, is borne out in the industry CSP scores, where the average is far less than the average in other industries. A very positive reputation for CSP, such as Ben and Jerry’s have may have a halo effect on the firm. Even if unethical practices are found, the ratings may not change. It is a subjective rating based on the preponderance of evidence (information) and the weight of various issues. A drawback of the KLD database and any other CSP rating system as the lack of a coherent, consistent, morally-justified or normative principle underlying the criteria. A secondary problem is the lack of consideration of environment (e.g., size and industry), that social issues in management scholars have tried to contend with by saying that CSP scores should be compared only within industries (e.g., Waddock and Graves, 1994).

5.2.2 Isomorphism

Two other explanations of the presence of design features not being associated with

social performance is that these design features may be incorporated into a corporation because (1) the features are rationalized *myths*, generally believed to be effective and have become institutionalized rules and patterns (Meyer and Rowan, 1977); or (2) firms adopt such features because other firms, especially those that are economically successful or socially prestigious adopt them (Powell and DiMaggio, 1991).

As institutionalized rules and procedures, some of these design features have been adopted by professional groups, the government, special interest groups, and the public as valued and important features. For example, the inclusion of an outside board member from an environmental group or the implementation of an ethics hotline is seen as a positive, socially responsible action. Special interest groups often battle the firm for representation on the board, but it is not always the way to get stakeholder concerns in the forefront of corporate decision making. For instance, several corporate boards have women and minorities on the board, but not in senior management.[27] As an example of coercive isomorphism, the Corporate Federal Sentencing Guidelines include provisions for a reduction of fine if the corporation can show that it has certain "ethical" design features in place such as an ethics audit and a hotline. Firms may adopt, to a limited extent, those features expected by the stockholders, government, or public, regardless of the effectiveness of the feature for that firm.[28]

According to institutional theory (Powell and DiMaggio, 1991), organizations may be more influenced by social and cultural pressures. These cultural and social

[27] Based on information in the KLD database.

[28] The design elements may be useful in other performance measures, such as legal liabilities, employee retention, etc. However, the CSP database criteria does not address those measures. So, an employee hotline may minimize turnover or help the human resources department be more effective, but it may not directly impact overall corporate social performance.

pressures (or expectations) were briefly mentioned above. However, in this case, corporations may be adopting design features that other firms have because it is a sign of legitimacy. The adoption of the Responsible Care® principles originally started in Canada, and then filtered into the U.S. as a handful of natural resource firms adopted the principles. Subsequently, many of the other natural resource or manufacturing firms have adopted them, along with associated industries such as transportation. Responsible Care®, a voluntary commitment to protect the environment and avoid harm to the natural environment and future generations (to some extent), is an example of a codified set of principles with a coherent, normative base that has been adopted by firms because of mimetic pressure within the industry to do so.

5.3 Limitations

The main limitation of the study is the limited number of firms for which CSP rating information is available and the quality of CSP rating information. The KLD database rates approximately 600 companies using the *Fortune* 500 and the firms in the Domini Social Index Fund. The CEP database rates fewer companies than the KLD database does. The *Fortune* index, responsibility to the environment and the community, may be the most broad but still not a very precise measure. This may not be as full or robust an assessment as the KLD or CEP databases.

The sample population is also limited because all the firms in the KLD database are publicly-traded, excluding some privately-held corporations that may be very successful in CSP or design around the terminal value of justice. For instance, a

privately-held firm may be more likely to be designed around the terminal value of justice, since the corporate actions and decisions do not have to be explained to the general public of stockholders, whose motivation for investing is likely primarily economic. The CEP database does rate some privately-held firms, but again the firms are limited to primarily consumer companies.

5.4 Future Research

This study was one of the first to examine the relation between organization design and the firm's impact on society, measured by CSP. From this examination of the design-performance relationship, two areas for research are apparent.

The first suggestion is to use other CSP databases to test the deviation distance of the firms from the ideal-type profile of a just organization. The *Fortune* reputational database would also be an indication of the perceived CSP by the investment community and senior management in these companies. Use of the *Fortune* index would have to be corrected for the halo effect (Brown, 1996), but the community and environmental responsibility index generated by *Fortune* every year could be used for a similar, if not the same, corporate population. The Council on Economic Priorities (CEP) publishes a CSP database called SCREEN, based on their popular analysis of socially responsible consumer companies, *Shopping for a Better World*. This database could be used for the consumer industry and indicate the consumers' perception of CSP and social responsibility of the firms. Many of the dimensions in the CEP database are equivalent or parallel to those in the KLD database: Community Outreach, Charitable Giving,

Women's Advancement, Minority Advancement, Workplace Issues, Family, The Environment, and Disclosure of Information.

Whereas this study examined design elements to address multi-constituents' concerns and corporate social performance overall, the second suggestion entails of future studies of organization design and CSP that examine the relationship of stakeholder-specific design elements and stakeholder-specific CSP ratings. A cursory attempt was made in this study, and the results indicated that the community, diversity, employee, and environment-related design features were correlated with their respective KLD dimensions. More design elements can be identified for specific stakeholders, and a similar research design using the KLD and/or CEP databases may be beneficial.