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On the Measurement of Corporate Social Responsibility: Self-Reported Disclosures as a Method of Measuring Corporate Social Involvement[1]

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This article develops a corporate social involvement disclosure scale based on a content analysis of the annual reports of the Fortune *500 companies. Three results are shown: (1) the change over time of these corporations' social involvement, (2) the direction and scope of this involvement, and (3) the effect that corporate social involvement appears to have on corporate profitability.*

A peculiar paradox of American economic history is that the large corporation has been, at one and the same time, the symbol of economic progress and yet a consistent object of criticism for instituting problems for which it has traditionally divested itself of responsibility. Growing corporate interest in social accounting, which is intended to provide the firm with usable measures of social involvement, indicates recent corporate awareness of its linkage to society. The empirical study of corporate social involvement, however, is in an undeveloped state.

In Europe, state owned firms in both France and England have attempted "social contracts" that would record and pay the firms for social activities—apart from their profit making functions. In the United States there has been a frequent call over the past few years, recently in 1978 by

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Secretary of Commerce Kreps, that a social activities report be developed by corporations. As yet, of course, neither the U.S. government nor the accounting profession has required such an annual report. However, the time may not be far off when firms dealing with the U.S. government may have to do even more in social accounting than report their affirmative action activities.

Although the literature on corporate social responsibilities is now substantial, measurement in this branch of organizational research is undeveloped in comparison with measurement in other areas. There are two basic difficulties in measuring corporate social involvement for purposes of research. The first is the unavailability of detailed information in quantitative (monetary and other forms) terms of the social activities that have relevance for the general rubric of social responsibilities. For purposes of research, furthermore, the activities must be measured and reported consistently across a large number of firms in order to enable statistical analyses. The second difficulty is that a methodology must be devised by researchers to measure the full impact of known corporate activities on society. Whereas the first problem is one of enlisting full cooperation from the firms themselves to obtain such information, the latter is one of scientific knowledge that is the responsibility of researchers of the business system, not the corporations. As a result of the combined effects of these two factors, the prospects are not promising in the near future for developing measures of social activities that are convincing and useful for policy purposes in registering the linkage between the corporation and society.

An adequate measure of corporate social activities must be based on a method of data collection in which the investigator (researcher, public interest group, governmental agency, corporate researcher, etc.) has unrestricted access to data on the full range of activities of the firm. The contents of this scale must be independently defined and must measure any form of behavior that is of policy interest. This is the equivalent of the social survey typically used in social research except that the unit of analysis is the organization and not the individual. Although there are no such sources at present, there are three types of published research that attempt to derive usable measures of corporate social activities: (1) social accounting, (2) reputational scales, and (3) content analysis of corporate publications.

Whereas accounting traditionally is considered to be a body of techniques for recording the financial transactions of a firm, the goal of social accounting is to add categories pertaining to the social impact of the firm into the firm's formalized accounting system. But, as Ramanathan notes, "A comprehensive analysis of the social impact of private enterprise suffers at the present time from a general absence of reliable data on aggregate social costs and benefits of business..." (1976, p. 516). It thus must be acknowledged that social accounting is not now at a stage at which the results can be used for decision making purposes. Indeed, in the

1975 report by the American Accounting Association's Committee on Social Costs the committee was able only to indicate exploratory activities by such individuals, organizations, and journals as Dennis Beresford of Ernst and Ernst, George Steiner of U.C.L.A., *Business and Society*, and several consulting firms. However, the report clearly indicates that the primary difficulty in developing a social audit on a professional level is formulating methods of obtaining quantitative measurements of social activities and impacts. The state of the art at present is to have developed categories of activities that need measurement and to have become aware of some of the problems in obtaining quantified data.

The reputational method, commonly used in social research to obtain the response of a public to a social phenomenon, is a second source of data on corporate social responsibilities. Limited scales have been derived from responses from two groups: business students and corporate staffers. Heinze (1976) reports how the student survey was made. The National Association of Concerned Business Students polled 150 graduate students regarding the social involvement of a sample of large corporations. The results were published originally in 1972. The responses were registered on a Likert-type scale ranging from 1 (very poor) to 5 (outstanding). A "no opinion" was assigned a zero. The mean score was the reputed corporate involvement score. Of the 28 corporations that Heinze reported, Xerox was highest with a score of 4.12. Standard Oil of California (1.97), U.S. Steel (2.00), and Bethlehem Steel (2.25), were at the lower end. There thus was substantial variation in the scores. Vance (1975) reported the application of the same methodology but using 86 corporate staffers to obtain ratings of 45 major corporations. The study was conducted in 1972. IBM (4.0) was at the upper end; Standard Oil of California (2.3) and Bethlehem Steel (2.4) again were at the lower end.

A basic difficulty in the use of the reputational method in studying corporate social involvement is that the respondents providing the ratings must be in a position to have detailed information about the corporations in the sample. What is being studied is actually the image of a corporation, which is highly influenced by the corporation's size, age, and access to the mass media, as well as by the experience of the respondent in the business world. Changes in corporate names because of mergers and other reasons also are a complicating factor. How much confidence thus can be put on knowledge about the inner workings of a large corporation by an outside public? A second basic difficulty is that the reputational method limits the number of corporations to be rated. It is easily possible, for example, to ask respondents to assess 10 to 20 objects. This may be accomplished in a few minutes of time and may be achieved with a one or two page questionnaire. The respondents may even be asked to rank 30 or 40 objects. (Occupational prestige studies even ask respondents for responses on up to 110 occupations.) However, there is a need, at the very minimum, to assess the corporate behavior of the entire *Fortune* 500 industrials.

The third source of information is the content analysis of documents and reports of corporations intended for communication purposes. Such sources of information include annual reports, personnel handbooks, and employee newspapers. Media sources include advertising and news releases in papers, journals, radio, and television. Speeches of top executives are another source (Hull, 1971; Bunting, 1971). Bowman and Haire (1975), for example, have reported the results of a content analysis of the annual reports of 82 food-processing firms listed in the 1973 *Moody's Industrial Manual*. Their measure of social involvement was the percentage of the space in annual reports pertaining to corporate responsibilities and activities. They found, for example, that the average was 3.63 percent, although six firms devoted 20 to 23 percent of their annual reports to corporate responsibilities. Their scale is limited, however. It does not indicate the breakdown by issue area. It also is restricted to the food-processing industry. However, the scale used has the value of indicating an aggregate measure of concern with corporate responsibilities.

The purpose of this paper is to pursue the use of self-reported disclosures as a means of constructing a quantitative scale, identified as the Social Involvement Disclosure (SID) scale, obtained from a content analysis of the annual reports of the *Fortune* 500. There are two tasks. The first is to discuss the methodological problems of content analysis in constructing the SID scale. The second is to report three uses of the SID scale in analyzing the *Fortune* 500: (a) to show their responses to corporate criticism and governmental pressure and regulation, (b) to show the dimensions of such corporate responses to current social pressures, and (c) to indicate the implications of social involvement for corporate profitability.

METHOD

Content analysis is a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity. The simplest of content analyses consists of nothing more than the attribution of the incidence of an event as indicated by the mention of the event under question in the literary document that constitutes the raw data. In this simple analysis, therefore, the dichotomy is the only level of measure that may be achieved for each category. However, if more than one category is subjected to a content analysis, a more complex level of measurement may be achieved through the summing of the results for each category. Thus, if each category is assigned a score of zero or one, indicating the absence or presence of the attribute under analysis, the resulting scale varies between zero and the number of attributes being investigated.

The codification of the data from the *Fortune* 500 was performed by the "Big-8" accounting firm of Ernst and Ernst under the direction of partner

Dennis R. Beresford (1974a, 1974b, 1975, 1976; Beresford & Feldman, 1976). Beginning in 1971, Ernst and Ernst has developed an annual unpublished summary reporting whether the annual reports of the *Fortune* 500 indicated activities for specific social involvement categories. The SID scale is the sum of the items mentioned for each firm. The number of categories used for coding varies slightly by year. For the 1973 index, the score ranged from zero to a high value of 23. For 1974, the score had a high value of 24. Table 1 indicates the specific indicators of each issue area that were used in the Ernst and Ernst content analysis of the annual

TABLE 1
Detailed Breakdown of Content Areas and Location of Social Responsibility Disclosures in Ernst and Ernst Analysis of Annual Reports of *Fortune* 500: 1973 and 1974

Issue Areas and Indicators	*Ernst & Ernst Code* 1973	1974	*Disclosure (percent)*[a] 1973	1974	Change
Environment					
1. Pollution control	01	01	32.5	35.8	3.3
2. Product improvement	02	02	3.8	4.0	0.2
3. Repair of environment	04	03	4.0	3.6	-0.4
4. Recycling of waste materials	03	04	7.3	15.9	8.6
5. Other environmental disclosures	05	05	8.3	30.6	22.3
Equal Opportunity					
6. Minority employment	10	06	17.7	15.9	-1.8
7. Advancement of minorities	—	07	—	12.3	—
8. Employment of women	09	08	14.3	14.1	-0.2
9. Advancement of women	—	09	—	12.9	—
10. Minority business	08	10	4.6	5.8	1.2
11. Other disadvantaged groups	—	11	—	2.6	—
12. Other statements on equal opportunity	11	12	14.5	21.1	6.6
13. Advancement of racial minorities or women	07	—	10.9	—	—
14. Hard core racial minority employment	06	—	0.8	—	—
Personnel					
15. Employee health and safety	—	13	—	13.3	—
16. Training	14	14	13.3	16.1	2.8
17. Other disclosures	15	15	10.5	12.1	1.6
18. Personnel counseling	12	—	0.4	—	—
19. Assist displaced employees locate new work	13	—	1.0	—	—
Community Involvement					
20. Community activities	16	16	14.3	18.3	4.0
21. Public health	17	17	4.2	5.8	1.6
22. Education or the arts	18	18	12.9	15.9	3.0
23. Other community activity disclosures	19	19	8.1	10.5	2.4
Products					
24. Safety	20	20	1.8	3.6	1.8
25. Quality	21	21	1.2	4.4	3.2
26. Other product-related disclosures	22	22	2.6	6.0	3.4
Other					
27. Other disclosures	23	23	9.7	5.6	-4.1
28. Additional information	—	24	—	3.6	—
Location of Disclosures					
1. Letter to stockholders	—	—	21.0	22.5	1.5
2. Separate section of annual report	—	—	24.6	29.2	4.6
3. Other section of annual report	—	—	30.6	52.1	21.5
4. Separate booklet with annual report	—	—	1.2	1.2	0.0

[a]Indicator percentages are based on 496 firms in 1973 and 497 firms in 1974.

reports for 1973 and 1974. The issues (environment, equal opportunity, product quality, etc.) reflect the criticisms that are currently being encountered by the modern corporation and also are the targets of governmental regulation. Environment and the specific problem of pollution control have received substantial attention in the annual reports of the *Fortune* 500. However, activities of the corporation also have relevance to such other currently critical issues as equal opportunitites for minorities and females, general personnel policies, and involvement with the community and the quality and safety of its products. The location of the social involvement disclosures in the annual reports also is indicated in Table 1. Whereas the disclosures in 1973 tended to be distributed more or less equally among the president's letter, a special section, or the general body of the report, about one-half of the disclosures are in the general body of the 1974 reports. Reporting social involvement activities of the firm thus has become institutionalized into the standard reporting system of the large corporation to its shareholders.

The most basic issue regarding the annual report as a source of social involvement data is whether the reported variation in social activities among firms is a reflection of real activities or is only an index of company policies on communicating activities to shareholders. There are theoretical reasons to expect the corporation to underreport its social involvement activities. Since social involvement activities are also costs, reading of such social activities by shareholders can be taken to mean that the firm's management is failing to put highest priority on the interests of the shareholders by not maximizing income available to be distributed as dividends (Friedman, 1970). Why should management thus be anxious to inform stockholders of such expenditures? On the other hand, the alternative view is that stockholders have a vested interest in the stability and legitimacy of the entrepreneurial institution and the autonomy of that institution from state control. Aware, then, of the criticisms that have been made of the corporation, reading of its progressive views on social responsibilities in the annual report can enhance confidence of the politically savvy shareholder in management's policies. In addition to managerial concern with stockholder response, staff effectiveness and sensitivity to issues also are a determinant of reporting activities. Theoretical arguments thus may be presented that the annual reports both overreport and underreport the social involvement activities of the firm.

Even if it is assumed that the annual reports accurately reflect the social activities of the firm, other problems of a methodological nature are appropriately raised. The raw data in the annual report are not in a state that is immediately usable for research purposes. In order to use the data it is necessary to formulate a set of categories and code the raw data in terms of the categories. Errors of two types thus are possible: (1) the formulation of categories that do not reflect all the issues actually contained in the report that are of policy interest and (2) inaccuracy in coding the raw data in terms of the selected categories. These errors thus affect the validity and reliability of the resulting scale. A third question might be raised regarding the meaning of the variation obtained in the scale. The only meaning that may be attributed to the scale is that it reflects the variety of social involvement activities. It does not measure the *intensity* of each activity. In order to do this, monetary or impact data would be needed.

Three arguments support the use of the SID scale in organizational research. First, because of the ready availability of annual reports, it is possible to derive social involvement scores for large quantities of firms. The research costs are reasonably low in comparison to other forms of data collection. The annual reports are also public data, thus not requiring cooperation from the firms. (Response rates in voluntary business surveys often are extremely low.) Reputational scales do not allow such quantities of firms to be rated. Based on available Ernst and Ernst data, the scale is now available for almost 500 firms. Nor is there a theoretical reason for limiting the scale to the *Fortune* 500. Indeed, it would be most useful for research purposes to extend the scale to other universes of corporations (such as small corporations) because they are likely to be far less sensitive to social involvement matters than are large corporations. Second, the data are public, and it is possible to replicate the results and thus provide a reliability check on the scale. Reputational scales, on the other hand, are difficult to replicate.

Third, limited validity may be demonstrated for the SID scale. Validity pertains to the extent to which a measuring procedure actually measures the theoretical concept for which the measurement procedure was intended. Is there consistency, then, between the concept (a theoretical construct) and the empirical operations used to study the theoretical concept? Validation is the empirical procedure used to test the consistency between the theoretical concept and the operationalization procedures. "Face" validity, although frequently used, is in fact not an empirical test at all: the operational measures are simply assessed on the basis of their logic and meaning. A more defendable method of validation is to test a given operational procedure for its association with other measures intended to measure the same thing. A high correlation thus gives greater confidence in all the measures under consideration. Table 2 attempts to assess the validity of the SID index through its correlations with the reputational scales based on businessmen and business students reported by Vance and Heinze. (The overlapping of firms unfortunately is quite low because of the small number of firms in the reputational studies.) Of the two scales, it is reasonable to assume that the businessmen's index is based on respondents with greater knowledge of corporate activities. The correlation between the SID scale and the businessman's index is reasonably high (.58), whereas the correlation is lower (.33) with the student index. Both indexes, however, correlate reasonably well with specific issues measured by the SID scale: equal opportunities and community involvement.

TABLE 2
Pearsonian Correlations Between Social Involvement Disclosures, Businessmen's and Business Students' Social Responsibility Indexes

Fortune *500 Social Involvement Disclosures: 1973-1974*	*SID Correlations with* Businessmen's Index (N=23)	*SID Correlations with* Business Students' Index (N=22)
Total index	.58	.33
Environment	.22	-.34
Equal opportunity	.66	.50
Personnel	.11	.01
Community involvement	.41	.53
Products	.49	.08
Other disclosures	.62	.26

RESULTS

Response to External Pressure

The modern, especially large corporation is subject to pressure from both the public in general and government regulatory agencies in particular. (Indeed, the two sources of pressure undoubtedly are correlated.) Table 3 consolidates two sources of data to determine trends in confidence in American institutional leadership from 1966 to 1975. Louis Harris

TABLE 3
Trends in Percentage Indicating a "Great Deal of Confidence" in American Institutional Leadership in National Samples from 1966 to 1975: Harris and General Social Survey Data[a]

	Harris Data (percent)			*General Social Survey (percent)*			*Percent Change[b]*	
Institution	*1966 (1)*	*1971 (2)*	*1973 (3)*	*1973 (4)*	*1974 (5)*	*1975 (6)*	*Harris (1966-73) (7)*	*GSS (1973-75) (8)*
Business:								
Major companies	55	27	27	31	33	20	-51	-35
Congress	42	19	21	24	18	14	-50	-42
Education	61	37	33	38	50	32	-46	-16
United States								
Supreme Court	51	23	28	33	35	32	-45	-3
Military	62	27	35	32	41	37	-44	16
Press	29	18	18	23	26	25	-38	9
Science	58	32	37	41	50	42	-36	2
Executive Branch–								
Federal Government	41	23	27	30	14	14	-34	-53
Doctors	72	61	48	55	61	51	-33	-7
Labor leaders	22	14	15	16	19	11	-32	-31
TV	25	22	17	19	24	18	-32	-5
Clergy (organized religion)	41	27	30	36	45	26	-27	-28

[a]Davis (1977) and Subcommittee on Intergovernmental Relations (1973).
[b]Percentages use initial year as the base and are rounded.

asked respondents in national polls in 1966, 1971, and 1973 whether they had a great deal of confidence, only some confidence, or hardly any confidence in the leadership of the main institutions of the United States. Identical questions on confidence in institutional leadership were included in the General Social Surveys of 1973-1975 (Davis, 1977). The Harris data (1966-1973) indicate that a general decline of confidence in American institutions had occurred at least by 1971. The GSS data (1973-1975) reveal that this confidence had not been regained by 1975. Confidence in big business leadership declined from 55 percent to 27 percent in the Harris polls. The GSS data for 1973-1975 indicate additional decline. The 1975 report indicated that only 20 percent of Americans had great confidence in big business leadership. Although it is essential to consider the decline of confidence in business as part of a syndrome, it is striking that the decline of confidence in big business is on the same order as the decline in confidence in the executive and legislative branches of the federal government.

Fundamental to any interpretation of the decline of confidence in an institution is the basic question of how an institution can ever achieve confidence in the first place. Functional social theory provides at least one interpretation. In this view, a society is comprised of a set of special purpose institutions that operate to achieve specialized tasks through legitimate means. Any perceived disjuncture between legitimate ends and legitimate means will result in a state of anomie of the system (Merton, 1968). It is suggested, therefore, that the most general explanation of the decline in confidence in leadership is the pervasive belief that U.S. institutions are failing to fulfill their functions legitimately. The activities that comprise the social involvement index (equal opportunities, environment, etc.) may be regarded as attempts by the large corporation to regain legitimacy with the public.

Table 4 reports the incidence of one or more items in the social involvement index among the *Fortune* 500 over the years 1971-1975. In 1971, 51.4 percent reported one or more activities. By 1975, this had increased to 85.7 percent. As the corporation increasingly has come under pressure from the public as well as the state, areas of criticism have received even greater

TABLE 4
Trends in Reporting Social Responsibility Disclosures Among *Fortune* 500: 1971-1975[a]

Categories	Percent 1971	1972	1973	1974	1975
Firms reporting social responsibility disclosures	51.4	58.1	60.1	69.6	85.7
Firms with no social responsibility disclosures	48.6	41.9	39.9	30.4	14.3
	100.0	100.0	100.0	100.0	100.0
N^b =	(465)	(492)	(496)	(497)	(496)

[a]Beresford (1974a, 1975, 1976).
[b]Reports were not readily available for the remaining *Fortune* 500 firms for each year.

treatment in the annual reports. The social involvement index is one measure of the corporate response of firms striving to regain legitimacy in American society.

Issues and Priorities

Table 5 aggregates the social involvement measures by content area, with the content areas ranked by the emphasis indicated by the 1974 survey. The firms include those in the *Fortune* 500 in the years 1973 and 1974. The percentages by content area may be taken as an index of relative emphasis. Environmental matters constitute the most frequently mentioned area in the annual reports for both 1973 and 1974. In 1974, for example, 50.4 percent of the annual reports indicated concern in various forms with this one issue. (It should be noted that environmental matters were first in importance for both periods even though disclosures by manufacturers of equipment, a likely target of criticism on environmental effects, were excluded for this one content area in 1973.) All other issues have distinctly lower emphasis. In 1974, equal opportunities (32.2 percent), personnel (29.4 percent), and community affairs (25.5 percent) had essentially similar levels of emphasis. The rates of increase in the concern with equal opportunities and personnel (7.7 percent and 9.2 percent, respectively) are similar. It thus is unclear which of these concerns will receive emphasis second to environmental matters in the near future. Involvement in community affairs (25.5 percent) does not appear to be increasing in relative emphasis (4.4 percent increase from 1973 to 1974) and thus should maintain its present order of priority. Safety and quality of products are last (10.5 percent). In sum, environmental matters appear to be of greatest concern to corporate thinking and should remain so in the near future, no doubt because of the threat of political repercussion. Nevertheless, the relative interest put on the various issue areas may be expected to vary, depending on issues that emerge on the national scene.

TABLE 5
Percent of *Fortune* 500 with One or More Social Response Disclosures per Content Area: 1973 and 1974[a]

Content Area	Percents 1973	Percents 1974	Percents Change
Environment	37.0[b]	50.4	13.4[b]
Equal opportunity	24.5	32.2	7.7
Personnel	20.2	29.4	9.2
Community involvement	21.1	25.5	4.4
Products	4.7	10.5	5.8
Other	9.5	8.3	-1.2

[a]Based on 494 firms included in *Fortune* 500 for 1973 and 1974.
[b]Manufacturers of equipment excluded in 1973.

Social Involvement and Profitability

Instead of basing its theoretical system on the assumption that the entrepreneur has a propensity to be socially responsible, or altruistic, the laissez-faire school takes as its premise that the entrepreneur is by nature greedy, self-interested, and does not care at all for the welfare of society. Indeed, Adam Smith argued: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices" (1937, p. 128). Smith's system is not based on the motivation of the entrepreneur to be socially useful, but rather on the existence of competitive forces in the system as a form of social control that directs the self-interest of the entrepreneur into socially useful channels. Therefore, because competition prevents long run excess profits through control of the market, long run profits become an index of the extent to which the entrepreneur has been able to achieve efficiency and thus minimize costs. Being socially responsible thus is incompatible with this model of entrepreneurial behavior because it may not result in minimum costs. The view that the corporate official should be socially responsible, in Friedman's terms, thus "shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (1962, p. 133). To attempt any other goal "is a fundamentally subversive doctrine."

If one of contemporary capitalism's leading theoretical spokesmen rejects social responsibility as an obligation of the modern executive, what are the theoretical arguments for corporate social involvement? Arguments supporting corporate social involvement are based on an open-systems model. An open-systems model involves explaining the behavior of organizations as a response to an actual or anticipated external influence. The open-systems model is illustrated in political history by Bismarck's social legislation in late nineteenth century Germany. In order to stem the rising influence of the socialists, Bismarck supported progressive social legislation in an attempt to reduce pressure for more dramatic forms of political change. The progressive social legislation thus was intended to "take the wind out of the sails" of the socialists. Although conservative in purpose, the policy appears to be liberal (as this term has been more recently used). This political mode of thinking is no less applicable to the situation in which the corporation at present finds itself. This model is illustrated by the Narver (1971) thesis on corporate responsibilities and firm welfare. The Narver thesis is that the rational decision maker seeking to maximize the welfare of the firm in the long run must adapt to the demands being made on the corporation to maximize the present market value of the stock of the firm. In order to maximize market value, it is necessary that the investor have confidence that the firm will not encounter long run sanctions, in particular from governmental sources, because of violations regarding pollution and other social involvement matters. The firm, in foregoing short run profits, thus is contributing to its long-run welfare. The difference, therefore, between Friedman and such advocates of enlightened social involvement as Narver may be a matter of short run versus long run time periods.

Does social involvement of a firm decrease profits to the investor? Research findings on the relation between corporate social involvement and profitability are influenced by the universe of corporations studied, the measure of social involvement, the measure of profitability, and the time frame of the study. The research results consequently are contradictory. There is not conclusive evidence that there is a clear linkage in any direction between corporate social activities and profitability. Vance's (1975) research, for example, appears convincing that corporate social responsibility is inversely linked with profitability in the short run. Vance analyzed the relation between reputational indexes of corporate social involvement derived from ratings of 45 corporations by corporate staffers and 50 corporations by concerned business students and the percent change in the price per share in 1974. Presented in scattergram form, both measures indicated a negative relation between corporate social involvement and change in share prices, although the inverse relation appears stronger for the corporate staffer index than for the student index. There are several limitations of this design, however, which restrict the usefulness of the findings. First, Vance reports the regression coefficients but does not report the correlation coefficients. The strength of the negative association thus is not known. (In the case of the student scale, it does not appear to be strong.) Second, 1974 may not be a representative year. Because 1974 was a disaster in the stock market, it is not appropriate to generalize from that year alone. A longer time period is needed. Third, the change in price per share, although a prime component of the total return to investors, does not consider dividends. Dividends should be included in measuring the return to the investor. There are also other measures of profitability, such as net income per unit of sales, assets, or stockholder's equity, that should be considered in analyzing this problem.

Whereas Vance reported a negative association between social involvement and profitability, studies by Heinze (1976) and Bowman and Haire (1975) report a positive association. The Heinze study was based on the reputational scale of the concerned business students (also used by Vance), and sought to find the connection between this rating for 28 large corporations and several measures of performance for 1972. The design consisted of considering the measure of social involvement as the dependent variable and seven variables as independent (sales growth, net income per unit of sales, operating profit per unit of sales, the current ratio, capitalization, net income per unit of assets, and net income per unit of net worth). Heinze reported that the partial correlation between net income per unit of net worth and the social involvement measure (controlling for all the other independent variables) was .51. This finding thus appears to support the view that social involvement and profitability are positively correlated. There are two problems in Heinze's research design, however. First, the directionality of the causal model is inverted in terms of the social involvement and profitability issue. The more appropriate design is to consider profitability as the dependent variable and social involvement as the independent variable. Although the zero-order correlations would be the same, problems of interpretation arise because Heinze reported only the statistically controlled correlation between the performance measure and social involvement. It would have been useful had the zero-order correlation matrix also been reported. Second, the universe of corporations is highly restrictive. A sample of only 29 corporations does not provide confidence that the results have wide applicability.

Bowman and Haire used the proportion of lines in annual reports discussing social involvement matters as the index of social involvement. They sought to validate this measure by comparing firms with a reputation for social involvement and a comparison group selected simply on the basis of size and industry. The high or premier groups scored significantly higher on the Bowman-Haire index than did the comparison group, thus providing empirical support for the use of the annual report as an index of social involvement. The Bowman-Haire sample consisted of all the American food-processing firms in *Moody's Industrial Manual* for 1973, which, with deletions, resulted in 82 firms. The measure of profitability was return on investment for 1969-1973 reported by *Standard and Poor's*. Their findings provide support for the view that social responsibility does not appear to threaten the profits received by investors. Those firms reporting some discussion of corporate involvement (31 of 82 firms) had a mean return on investment of 14.3 percent, whereas those with no discussion of social involvement had a mean return of 9.1 percent. The Bowman-Haire study of social involvement appears to indicate that it is not dysfunctional for a firm to be socially involved.

Table 6 assembles available data on 450 corporations of the 1974 *Fortune* 500 to test for the relation between the SID scale and the total return to investors for 1964-1974. The lower involvement firms are those that reported less than three social involvement items in their annual reports of 1973 and 1974. The remaining firms, those reporting three or more items, constitute the high involvement firms. This classification results in 214 and 236 firms for the two categories, respectively. The low involvement firms averaged 2.32 percent and the high involvement firms averaged 2.58 percent average return to investors for 1964-1974. The difference of .26 percent obviously indicates that there appears to be no effect of social involvement for this population of corporations. These results are further stratified by employment size. Those companies with 30,000 or fewer employees in 1974 are considered to be in the lower category and those with greater than 30,000 employees are in the higher. (This is approximately the 70th percentile for the 1974 *Fortune* 500.) Size makes little

TABLE 6

Social Involvement Disclosures, Employment Size and Average Total Percentage Return to Investors from 1964 to 1974: 1974 *Fortune* 500[a]

Variable and Groups	*Average Annual Total Percent Return to Investors (1964-1974)* *Mean*	*N*
Social involvement disclosures (SID)		
Total	2.46	450
Low SID (0–2 social disclosure items: 1973-74)	2.32	214
High SID (3+ social disclosure items: 1973-74)	2.58	236
Difference: high minus low	0.26	—
Employment size		
Low (30,000 and under)	2.68	318
High (above 30,000)	1.91	132
Difference: high minus low	−0.77	—
Employment size and SID		
Low employment (30,000 and under)		
Low SID	2.65	174
High SID	2.73	144
Difference: high minus low	0.08	—
High employment (above 30,000)		
Low SID	0.90	40
High SID	2.35	92
Difference: high minus low	1.45	—

[a]Data reported for 450 firms on which return to investor data are available.

difference in profitability. The small firms averaged 2.68 percent, whereas the larger firms averaged 1.91 percent. When the effects of size are taken into consideration, social involvement appears to have only a very minor effect upon profitability primarily among the larger firms. Among the smaller firms, for example, the difference between high and low social involvement firms was .08 percent. Among the larger firms, however, the less socially involved firms averaged .90 percent, whereas the more socially involved firms averaged 2.35 percent, or a difference of 1.45 percent between the higher and lower socially involved firms. However, this difference is also not substantial. Being socially involved does not appear to increase investors' total rate of return. Nor does it appear that being socially involved is dysfunctional for the investor. Perhaps it is the latter finding that has greater significance for decision making purposes, particularly given current political and social pressures.

SUMMARY

This paper has attempted to develop a social involvement disclosure scale based on a content analysis of the annual reports of the *Fortune* 500. The resulting scale and data were used in three ways: (1) to analyze the response of the *Fortune* 500 to criticism and governmental pressure, (2) to analyze the dimensions of such corporate response, and (3) to analyze the relationship between social involvement and corporate profitability. The self-reported social disclosure method of measuring corporate social involvement, despite its own drawbacks, was found to have significant advantages as a technique for measuring corporate social responsibility and yielded generally meaningful results when applied to the above questions.

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