IT'S ALL ABOUT BALANCE:
EXAMINING THE FACTORS THAT DRIVE A FIRM'S INTEGRATED SOCIAL PERFORMANCE

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ABSTRACT

This paper examines factors that enable corporations to act authentically on the values of human respect and dignity, thus achieving integrated social performance. Integrated social performance is realized when firms that take responsibility for how their actions affect *all* stakeholder groups and seek to make positive impacts for their supply chains, employees, and communities. I looked at three factors: leadership diversity, sustainability governance structures, and financial resources. My findings indicate the importance of sustainability governance structures and financial resources for achieving integrated social performance. On the other hand, the results were mixed for leadership diversity. Overall, my findings give more color to the feasibility of upholding the promise of Freeman's original stakeholder theory and suggest concrete steps that will allow corporations to do so.

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I. INTRODUCTION

The German philosopher Immanuel Kant states his practical imperative for humanity as follows: “Act so as to treat humanity, whether in your own person or in that of another, at all times also as an end, and not only as a means,” (1785, 56). Central to the experience of humanity is the notion that each individual deserves to be treated with dignity and respect. Justice for some, but not all, contradicts that notion. The next question is, by whom does each individual deserve to be treated with dignity and respect? I propose that the answer to that question includes corporations. Corporations are comprised of individuals, each worthy of dignity and respect. Furthermore, the actions of corporations have a significant impact on the welfare and well-being of individuals both within and outside of the firm. Therefore, they have a responsibility to treat everyone who can affect or is affected by the actions of the corporation with dignity and respect.

Unfortunately, corporate actions do not necessarily always reflect this sentiment. For example, corporations often outsource their labor to suppliers in developing countries in order to reduce their labor costs. To remain cost-competitive, these suppliers, then, will overlook dangerous working environments, severely underpay their workers, and inhibit workers’ efforts to organize for change. On the other hand, some corporations cultivate a toxic work culture – some aspects include a lack of psychological safety, overall disrespect and disengagement, and unfair compensation. Lastly, corporations may also choose to allocate less to charity and philanthropic causes in order to boost earnings, which can come in the form of executive compensation packages being tied to share price.

These examples underscore some of the many ways that corporate actions and managerial choices contradict the principle of treating individuals with dignity and respect. In addition, they

reflect corporations making tradeoffs among stakeholder priorities rather than seeking to maximize the benefits for all.

And yet, not all corporations are bad actors. We often hear anecdotes about companies that do treat individuals with dignity and respect and seem to be all the more successful for it. For instance, Patagonia engages auditors to ensure quality working conditions throughout its supply chain, and Starbucks maintains long-term relationships with suppliers to have more control over quality and ensure fair living wages for workers. How do these companies manage to overcome the tendency to trade-off one stakeholder's needs for another; that is, to sacrifice positive social performance for the sake of positive financial performance?

The answer to this question may lie in our theories about the social responsibilities of the firm. Shareholder value maximization theory states that the only social responsibility of a business is to increase profit while remaining within the law (Friedman 1970) – and corporations have excelled in demonstrating this doctrine. Moreover, laissez-faire capitalism often fails to represent the interests of all members of society due to the opposition to government intervention – thus, representation is skewed towards those with more wealth. In line with laissez-faire capitalism, this doctrine of shareholder value maximization theory places shareholders on the pedestal – all firm actions are catered to "increasing shareholder value."

However, in the recent years, there has been a clear shift from the traditional bottom line of profit to "triple bottom line" reporting, which measures a firm's social, environmental, and governance impacts in addition to their financial performance (Elkington 1994). The triple bottom line reflects that firms have responsibilities than extends beyond just shareholders, by encompassing a firm's responsibilities to other stakeholder groups. Stakeholder theory focuses on businesses "creating as much value as possible for stakeholders, without resorting to

tradeoffs," (Freeman 2010, 28). In contrast with the shareholder value maximization theory, Freeman's stakeholder theory suggests that firms should consider all stakeholder groups, not just shareholders, when making decisions. A stakeholder is defined as "any group of or individual who can affect or is affected by the achievement of the organization's objectives," (Freeman 1984, 31).

Within the stakeholder theory tradition, two distinct approaches have emerged. One approach emphasizes the importance of balancing stakeholder needs and the possibilities associated with using moral imagination to come up with creative solutions that improve outcomes for all (Freeman 1984; Phillips 1997). Furthermore, Freeman argues that stakeholder tradeoffs are simply unacceptable, and that in order to overcome trade-off thinking, creativity is more important than ever ("Business is about Purpose" 2013). The other approach emphasizes the challenges created by conflicting stakeholder demands and recommends approaches for making fair trade-offs among these different groups (Mitchell et al. 1997; Reynolds et al., 2006). Specifically, Mitchell et al. (1997) argue that "to achieve certain needs, or because of perceptual factors, managers do pay certain kinds of attention to certain kinds of stakeholders," (855). Moreover, they define three main stakeholder attributes as part of the identification process, which they termed "stakeholder salience" – power, legitimacy, and urgency. Thus, these attributes give corporations the agency to determine which stakeholder groups are worth prioritizing, implying that other stakeholders' needs may be sacrificed in the process. Building upon Mitchell et al.'s framework, Reynolds et al. (2006) find that "indivisible resources and unequal levels of stakeholder saliency constrain managers' efforts to balance stakeholder interests" and "resource divisibility also influenced whether managers used a within-decision or an across-decision approach to balance stakeholder interests," (292). In essence, Reynolds et al.

suggest that even if corporations do want to balance stakeholder interests, they are constrained by resources and saliency perspectives, and eventually will have to choose what stakeholder groups to prioritize (2006).

The primary goal of this research project is to explore the factors that enable corporations to act authentically on the values of human respect and dignity and achieve balanced or "integrated" performance in line with Freeman's original conceptualization of stakeholder theory. Specifically, this paper will examine if leadership, corporate governance structures, and financial resources affect a firm's integrated social performance.

My findings indicate that sustainability governance structures and financial resources are integral to achieving integrated social performance. It is important to note that achieving this level of performance is a rare phenomenon – in a given-year, at most, 6% of the firms in my dataset achieved integrated social performance. As for leadership diversity, the results were mixed – having a female CEO was positive and significant while board diversity and female executives were insignificant. Overall, my findings give more color to the feasibility of upholding the promise of Freeman's original stakeholder theory and suggest concrete steps that will allow corporations to do so.

II. LITERATURE REVIEW ON INTEGRATED SOCIAL PERFORMANCE

I define *integrated social performance* as superior firm performance across all of the social impact dimensions of supply chain, employees, and the local community. While this operationalization of social performance is new, the aforementioned underlying dimensions of social impact have received significant attention from scholars in recent years.

Sustainable Supply Chain Management

An efficient supply chain is instrumental to a firm's profitability, and it must be able to keep pace with a firm's sales growth. However, growing sales and expanding supply chains have led to unintended consequences, such as ecological deterioration and industrial accidents that negatively affect livelihoods (Paulraj et al. 2017). These consequences sparked the introduction of sustainable supply chain management (SSCM), which is defined as "the management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social, into account which are derived from customer and stakeholder requirements," (Seuring and Muller 2008, 1700). SSCM can serve as a solution to better utilization of natural resources to "meet the needs of the present without compromising the ability of future generations to meet their own needs," (Paulraj et al. 2017; "Our Common Future – United Nations" 1987, 239). Some examples of SSCM include firms having a human rights policy, performing audits on supply chain partners, and reporting on supply chain monitoring and enforcement policies.

Recent research has shown that a firm's attitude towards SSCM is driven by moral motivations, which are "anchored in the notion that businesses have an ethical duty to make a positive contribution to the environment and society and create a better world," (Hahn and Scheermesser 2006; Bronn and Vidaver-Cohen 2009; Paulraj et al. 2017, 244). Specifically, firms that are primarily driven by high moral motivations tend to have better SSCM performance than those primarily by instrumental or relational motives (Paulraj et al. 2017). Examining 205 U.S. supply chain companies, Kitsis and Chen's (2020) research supports Paulraj et al.'s findings, but in addition, also highlight that" all three types of motives (instrumental, relational,

and moral) are robust in driving SSCM practices and achieving improvement in all three dimensions of sustainable performance," (325).

With examining the relationship between financial performance and SSCM, Wang and Sarkis (2013) find that SSCM is positively correlated with corporate financial performance, which was measured with return on assets (ROA) and return on equity (ROE), and that the lag time of positive effects is at a minimum of two years. These findings support the earlier research of Krause et al. (2009), which states that while SSCM can lead to a decline in short-term profit, it can result in a long-term competitive advantage. Furthermore, Mann and Kaur (2019) find that sustainable sourcing and resource utilization are two SSCM activities that have positive impacts on a firm's financial performance.

There is also research indicating that financial performance drives firm implementation of SSCM, or lack thereof. Specifically, Pagell et al. (2020) examine the tension between worker safety and organizational survival during Covid-19, finding that organizations that do provide a safe workplace have lower odds and length of survival. Because it is more expensive to ensure workers' well-being than to ignore it, firms choose to not prioritize safety. This study gives rationale for why companies do not prioritize SSCM as well as why corporations' words may not align with their actions.

By analyzing the integration of sustainability into traditional supply chain management in German manufacturing companies, Wolf (2011) identifies the factors that enable or impede said integration. One factor examined is the external stakeholder integration of downstream supply chain partners. Research has shown that pressures from stakeholder groups would influence the adoption of SSCM. In particular, Wolf's data indicates that there is a difference between the perceived pressure from stakeholders versus what stakeholders are actually demanding from

firms. Specifically, Wolf suggests that perceived stakeholder pressures are simply insufficient for a successful SSCM integration (2011). To integrate successfully, firms first "need to understand more precisely the nature and range of stakeholder expectations to design appropriate strategies," (Wolf 2011). Vidal et al. (2022) find that entrepreneurial orientation and sustainability orientation function as moderators of the effect of supply chain stakeholder pressure on the adoption of social and environmental SSCM. Understanding the needs of various stakeholders will ultimately shape what integration of SSCM will look like.

Responsible Employee Management

Employees are a firm's most valuable assets, and as such, they are a stakeholder group firms must account for and be accountable to. And some companies excel in ensuring that they fulfill their responsibilities to their employees. For instance, Freeport-McMoran launched a global initiative to strengthen their focus on diversity and inclusion. Their initial focus areas included executive training and reviewing their HR processes to learn how to better attract more diverse applicant pools (Freeport-McMoran 2019).

Recent research suggests that a firm's focus on environmental, social, and governance matters (ESG) helps them recruit and maintain top talent. Specifically, a study on the effects of a company's ESG performance on the willingness of its employees to invest in its stock suggests that local working conditions is the ESG dimension that affects most employees' investment decisions (Bonelli et al. 2022). Because they prioritize their personal well-being, many job candidates will seek firms with a strong work culture and competitive benefits. Being treated well by the firm can increased an employee's loyalty to the firm and drive greater productivity. Furthermore, Mayer (2016) finds that corporate policies that improve treatment of employees and encourage diversity are positively correlated with corporate innovative efficiency – this

positive correlation can lead to greater financial returns for the firm. Bonelli et al. (2022) also find that this positive correlation exists between ESG performance, specifically, treatment of employees, and a firm's financial performance.

The role of gender in ESG performance has also been examined in the research. Monteiro et al.'s 2021 study shows that a higher proportion of women in management teams have a positive effect on the development of initiatives aimed at enhancing their company's working conditions, improving the employees' knowledge and skills, and promoting the protection of human rights, all components of the 'S' pillar. These findings serve as evidence of the importance of gender diversity as a driver for a firm's social commitment.

Likewise, responsible treatment of employees can also lead to employee psychological well-being improvement (Piao et al. 2022). Piao et al. (2022) use occupational stress as a proxy for employee psychological well-being. They find that, overall, the social pillar score has favorable effects on employees' occupational stress but has mixed effects with specific types of corporate social activities. For instance, a company's increased focus on health and safety management releases employee's occupational stress. However, increase in labor management caused by employee competition does increase occupational stress (Piao et al. 2022).

Current literature surrounding responsible employee management does emphasize the benefits to financial performance, but more importantly, social performance, such as increased diversity on management teams and improved employee psychological well-being.

Investment in the Local Community

A corporate focus on the local community seems to be prioritized less than other stakeholder groups. However, investing in the local community is a long-standing corporate social responsibility practice. Starbucks is an exemplar in this area. For example, they have

designated some of their stores as community stores, which are stores in diverse, low-to-medium income urban areas that provide extra services and resources specific to the communities' needs. Currently, Starbucks has nearly 150 community stores and aims to have 1000 stores globally by 2030. In addition, The Starbucks Foundation Service Fellows Program gives employees the opportunity to work 20 hours in the store in each week and spend 20 hours with a local nonprofit.

Several factors underlie a company's willingness to engage with and invest in the local community. One foundational theory is the theory of community social capital: "the manifestation of the effects of the civil norms and social networks arising from the local, small-scaled geographically bounded community surrounding a firm's headquarters," (Hoi et al. 2018, 649). In other words, this theory states that local community's values can influence the extent of a firm's activities in the local community and also places some responsibility on the community to advocate for their needs. Who better to guide firms on how they can support the local community than the community itself?

In his analysis on management's perceptions of salience for six stakeholder groups, Buniamin (2020) builds upon this importance of local communities guiding firms' actions. His research illustrates that management perceives the local community as lowest in salience, which can be explained by the weakness of local community demands regarding ESG matters (Buniamin 2020). As follows, if the local community held firms accountable for ESG matters and make greater demands, management would have better understood what the local community needs and could make that more of a priority.

Another driver of corporate philanthropic efforts is the notion of community isomorphism, which is the "the resemblance of a corporation's social practices to those of other

corporations within its community," (Marquis et al. 2007, 2). Firms feel pressured to not be known as the "bad actor," and now, most, if not all, corporations contribute to philanthropic efforts to some extent. This isomorphism then leads to the normalization of corporate support of the local community.

Corporate support of local community can also influence the actions of others. Hoi et al. find that a positive correlation between the number of positive CSR activities a firm undertakes and the engagement in positive CSR activities among local organizations headquartered in the same community (2018). When corporations do prioritize social responsibility, this can manifest through greater engagement within the local community more broadly.

Lastly, there is evidence that corporate philanthropy is negatively correlated with lower employee turnover. An alignment in values between employees and firms can increase employee commitment and decrease turnover (Rice et al. 2022). Because employees are an essential driver of a firm's financial performance, firms are incentivized to increase philanthropic efforts to continue attracting and retaining talented employees.

Integrated Social Performance

Several management studies have previously examined the notion of "integrated" performance. For instance, Weaver et al. (1999) examine decoupled and integrated social performance in the realm of corporate ethics. They define integrated social performance as situations where "integrated structures and policies affect everyday decisions and actions; decisions are made in light of these policies, and people occupying these specialized structures have the confidence of and regular interaction with other departments and their managers," (540). Because these structures are supported by other organizational policies and programs, "managers and employees are held accountable to it, take note of it, and see it as having a valued

role in the organization's operations," (Weaver et al. 1999, 540). Thus, integrated social performance is achieved when the different facets are prioritized within the entire organization, which then minimizes trade-offs and allows for balance among different stakeholder groups. In contrast, decoupled social performance "provides the appearance of conformity to external expectations while making it easy to insulate much of the organization from these expectations," (Weaver et al. 1999, 541). Decoupled social performance tends to be more performative – the existing policies/structures do not necessarily lead to action and progress.

Weaver et al. find that external factors, such as pressures from the government and news media as well as the influence of business standard-setters, are more likely to influence the development of decoupled ethics program practice (1999). In order to develop an integrated ethics program, they suggest that top management's commitment to ethics is necessary, which shows the importance of leadership influence on social performance. Jones' 1999 investigation on the institutional determinants of social responsibility further supports Weaver et al.'s findings about the importance of management commitment.

In addition, Hawn and Ioannou (2015) explore the effect of the interplay between a firm's external and internal actions on a firm's market value in the context of corporate social responsibility (CSR). Instead of dividing corporate social responsibility into the traditional categories of environmental, social, and governance, Hawn and Ioannou divided it into internal and external corporate actions. They define internal corporate actions as ones that affect stakeholders that "lie within the narrow boundaries of the firm (i.e., employees, managers, owners)" and external corporate actions as ones that affect stakeholders who "generally lie outside the organization (i.e., society, government, customers, suppliers, creditors, and shareholders," (Hawn and Ioannou 2015, 2572). The research findings reveal that both external

and internal CSR actions contribute to the accumulation of intangible firm resources, which then leads to an improvement in market value (Hawn and Ioannou 2015). In contrast, a larger gap between internal and external actions is negatively correlated with market value, because it is "likely to perceived as lack of transparency and accountability toward the investor community, and, therefore, the firm's valuations are likely to suffer," (Hawn and Ioannou 2015, 2584). Therefore, in order for CSR to have a positive impact on market value, the firm should focus on both internal and external stakeholders, which supports the need for integrated social performance.

Summarizing these different streams in the literature, I may surmise that superior social performance within each of the three dimensions of supply chains, employees, and communities depends upon leadership, the presence of sustainability governance structures, and financial resources. Likewise, integrated social performance also requires leadership commitment and a willingness for firms to invest in both their external stakeholders, like their supply chain, local communities, as well as their internal stakeholders, such as their employees. In the following sections, I review prior research in each of these areas and develop hypotheses about how each might affect a firm's ability to act authentically on the values of human respect and dignity and achieve integrated social performance.

III. HYPOTHESIS DEVELOPMENT

Leadership

Upper management's influence in an organization is often explained by Hambrick and Mason's (1984) upper echelons theory, which states that "executives' experiences, values, and personalities greatly influence their interpretations of the situations they face, and in turn, affect their choices," (Hambrick 2007, 334). Essentially, executives' own values play an instrumental

role in steering their firm's strategic direction. Applied to the context of corporate social performance, research has demonstrated that ethical leadership does play a role in corporate social responsibility, which in turn, can affect firm reputation (Brown, Trevino & Harrison 2005; Maak & Pless 2006; Zhu et al. 2013).

Additionally, research also indicates that management diversity affects social performance. Boulouta (2013) analyzes a sample of 126 firms from the S&P500 over a five-year period and finds that board gender diversity significantly affects corporate social performance. Specifically, more gender diverse boards exert stronger influence on the metrics that focus on 'negative' business practices. He theorizes that this focus arises because those metrics have potential to induce higher levels of emphatic care, which resonates more strongly with female directors (Boulouta 2013). Furthermore, through investigating the impact of woman managers on business behavior in relation with labor and human rights, Monteiro et al. (2021) find that gender diversity in management teams is positively associated with performance in labor and human rights, and that such performances act as a mediating factor by fostering a higher disclosure of information of these issues. Lastly, the importance of female leadership for a firm's social performance is also supported by Harjoto et al.'s 2020 research on the effects of female leadership on corporate social responsibility reporting. They find that CSR reports with a female signer/co-signer are more readable and express more solidarity with stakeholders, which also positively relates with future CSR ratings, hence indicating the longevity of strong social performance (Harjoto et al. 2020; Naciti 2019).

Based on the aforementioned literature, management and board diversity, specifically having female leaders, drives greater social performance. Therefore, I formulate the following hypothesis:

Hypothesis 1: Leadership diversity leads to integrated social performance.

Sustainability Governance Structures

Corporate governance is defined by the Cadbury Committee as a "system by which companies are directed and controlled," (Cadbury 1992, 4). The Organization for Economic Cooperation and Development (OECD) elaborates on Cadbury's definition by stating that "the corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders, and other stakeholders – and lays down the rules and procedures for decision-making," (*European Central Bank* 2004, 219).

Good corporate governance can combat the concerns explained by agency theory – where management (agent) is incentivized to perform earnings managements in presenting financial statements for the benefit of shareholders (principal). While studied extensively as a standalone topic, corporate governance has also been researched in the context of corporate social responsibility. For instance, Mallins et al. (2013) look at how governance affects social and environmental disclosures by analyzing the disclosures of the 100 U.S. Best Corporate Citizens in the period 2005-2007. They define social performance in two dimensions: people and product. Their findings illustrate a positive relationship between governance and social performance, moderated by stakeholder orientation (Mallins et al. 2013). Interestingly, Mallins et al. also find that corporate governance affects people and product performance differently. In fact, firms that have a higher "people" performance are more likely to provide less and lower quality information – this can be explained by the idea that "disclosure is used as a legitimacy tool for poor social performance," (Mallins et al. 2013, 40). In contrast, firms that have a higher product

performance are more likely to provide more and higher quality information (Mallins et al. 2013).

Peter and Romi (2015) examine whether sustainability-oriented corporate governance mechanisms such as having an environmental sub-committee within the Board of Directors and having a Chief Sustainability Officer (CSO) impact the voluntary assurance of corporate sustainability reports. Findings indicate that a positive relationship exists between a firm having a CSO and using sustainability assurance resources, and that the likelihood of a firm adopting sustainability assurance increases when a firm has an environmental committee with relevant expertise (Peters and Romi 2015). Given these points, it appears that environmental committees and CSOs can essentially act as the control forces behind corporate social responsibility.

Another sustainability governance mechanism is executive compensation – specifically, linking executive pay to sustainability benchmark structures. Al-Shaer and Zaman (2019) examine the impact of sustainability reporting assurance on CEO compensation and find that board-level sustainability committees and sustainability reporting assurance have a positive and significant association with the sustainability-linked benchmarks in the compensation structure. These types of benchmarks hold the C-suite accountable and could lead to more impactful changes. Furthermore, companies that invest in voluntary sustainability reporting assurance are more likely to monitor management's behavior and be concerned about achieving the set sustainability goals (Al-Shaer and Zaman 2019). Building on Al-Shaer and Zaman's research, Baraibar-Diez et al. (2019) find that sustainable compensation policies affect ESG scores, and that these policies' effects are greater when there is a corporate social responsibility committee. All in all, this research highlights the vital role that governance plays in corporate social responsibility.

Sustainability-linked executive compensation, investment in sustainability assurance services, and having board-level committees or C-suite executives overseeing sustainability efforts are all important in order for the sustainability targets to be achieved. Therefore, I summarize the above discussion through the following hypothesis:

Hypothesis 2: Sustainability governance structures lead to integrated social performance.

Financial Resources

There has been extensive research on how corporate social performance (CSP) affects a firm's financial performance, namely, addressing whether CSP enhances financial performance. However, the ways in which financial performance affects social performance is relatively less examined – specifically, the effect of financial resources. Nevertheless, there are many reasons to conclude that financial resources are an important enabling factor in achieving integrated social performance.

Barnett and Salomon find that the relationship between corporate social performance (CSP) and corporate financial performance (CFP) is U-shaped – firms with low CSP have higher CFP than firms with moderate CSP but firms with high CSP have the highest CFP (2012). This result is explained by the stakeholder influence capacity (SIC), which is defined as "the ability of a firm to identify, act on, and profit from opportunities to improve stakeholder relationships through CSR," (Barnett 2007, 803). Barnett and Solomon's research supports Barnett's 2007 argument that a firm engaging in socially responsible behaviors can lead to a gain in SIC, which then will improve their ability to transform social investment into financial returns. Most pertinent to my research focus is Barnett and Salomon's finding that there is a bi-directional relationship between CSR practices and CFP. In line with Barnett and Salomon's research,

Ammer and Othman (2011) analyze the top 100 sustainable global companies in 2008 and find that companies with superior sustainable have a significant higher mean sales growth, return on assets, profits before taxation, and cash flows from operations.

In 1997, Waddock and Graves examined the relationship between corporate social performance and financial performance – specifically, they focused on the slack resources theory and good management theory. The slack resources theory states that the "availability of slack (financial and other) resources provide the opportunity for companies to invest in social performance domains, such as community relations, employee relationships, environment," (Waddock and Graves 1997, 306). Moreover, Waddock and Graves define good management theory as "the high correlation between good management practice, and CSP because attention to CSP domains improve relationships with key stakeholder groups," (1997, 306). Ultimately, their research indicates that better financial performances may lead to improved CSP due to the slack resources theory. Affirming Waddock and Graves' findings, Orlitzky et al. (2003) highlight that a positive relationship between FCF and CSP work when firms have slack resources because when there are scarce resources, managers tend to allocate towards short-term initiatives instead of longer-term CSR initiatives.

In 2012, Hong et al. examine the financial constraints on "corporate goodness," which they define as spending on community relations, employee relations, diversity of the workforce, environmental protection, and product quality and governance. The results show a causal link between less financially constrained firms and higher social responsibility– and that corporate goodness spending is more sensitive to financial slack than is the case for capital expenditures and R&D investment, which are often necessary for business operations (Hong et al. 2012). In support of Hong's findings, Borghesi et al. (2014) find evidence that greater financial

performance, specifically higher cash flows, does lead to greater CSR capabilities. With financial resources, Ruggiero and Cupertino (2018) find that innovation is critical in the relationship between CFP and CSP – it allows organizations to respond to challenges faster and better than organizations who are not able to innovate. Therefore, they conclude that sufficient financial resources to invest in innovation can be key to pursuing and increasing corporate social performance (Ruggiero and Cupertino 2018).

Given these points, it seems likely that financial resources would affect corporate social performance as a whole. Thus, I introduce my last hypothesis as follows:

Hypothesis 3: Financial resources lead to integrated social performance.

IV. METHODOLOGY

Research Design and Sample Selection

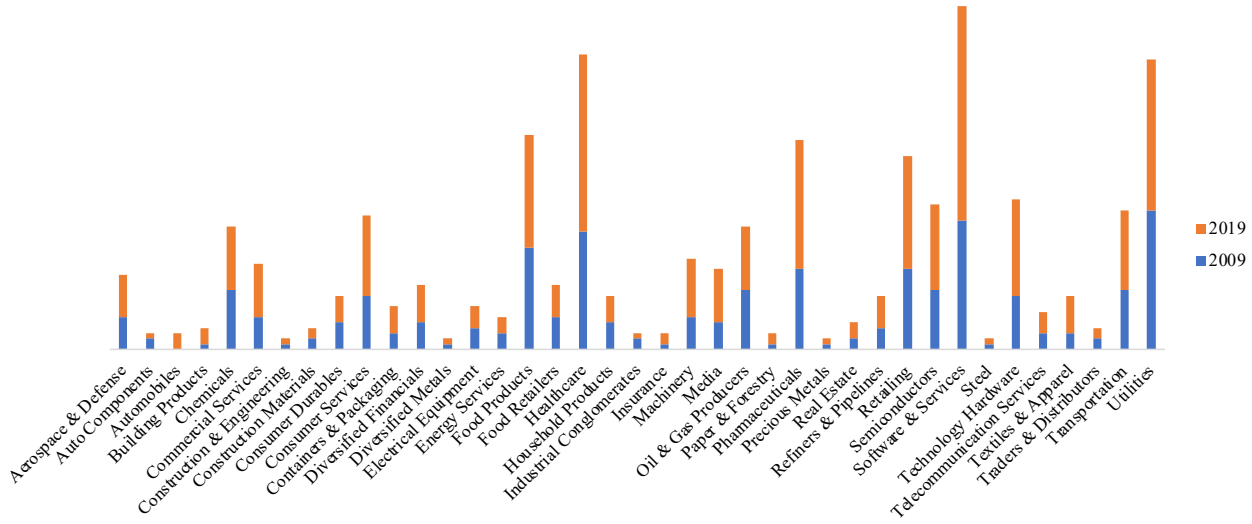
To explore the factors that enable corporations to act authentically on the values of human respect and dignity and achieve integrated social performance in line with Freeman's original stakeholder theory, I created a dataset based on Sustainalytics' sustainability performance ratings of 477 publicly traded North American companies for the 2009-2019 time period. Among the many different sustainability rating agencies, I focused my sample on firms analyzed by Sustainalytics because of its popularity as well as its reputation as a leading ESG research and data company. In addition, Sustainalytics' research has a track record of being successful in identifying ESG risks in firms. For example, in 2015, Sustainalytics flagged governance concerns at Volkswagen mere months before their emissions scandal, and similarly, flagged Fiat Automobiles governance concerns before their emission scandal in 2017.

Sustainalytics rates companies using a range from 1-100, with a score of 50 indicating that the firm's score directly aligned with the median firm in its respective industry.[1] While the Sustainalytics ESG rating methodology is proprietary, this third-party evaluator reported that their ratings reflected an assessment of the most relevant ESG issues for a company across more than 70 indicators, which were weighted according to their level of importance within each of 42 industry groups. Within each of the three E, S, and G pillars, Sustainalytics assessed three dimensions: "Preparedness measures a company's commitment to managing ESG risks through stated policies, programs, or systems. Disclosure measures transparency about ESG-related activities and the extent to which a company's ESG reporting reflects best practices. Performance is measured through various quantitative and qualitative indicators," (Hale 2016). Sustainalytics ESG ratings have also been used in numerous academic studies as a proxy for ESG quality and corporate social performance (e.g., Filbeck et al. 2019; Serafeim and Yoon 2022; Surroca et al. 2010; Wolf 2014).

From the initial Sustainalytics sample, which contained summary information on the sustainability reporting activity of 477 firms, I matched the firm-year observations with fiscal year management data from Execucomp and financial data from Compustat for the years 2009 - 2019. My final example of 382 firms included only those that met all of the following criteria: 1) publicly traded; 2) had matching data from Execucomp; 3) had matching data from Compustat; and 4) based in the U.S. Figure 1 illustrates the number of sustainability reports by industry in 2009 versus 2019 – it is clear that some sustainability reports are more common in some industries than others. In addition, overall, more sustainability reports have been published in 2019 per industry than in 2009 (Figure 1).

[1] Sustainalytics changed its rating methodology to focus on a new "ESG Risk Ratings" approach in early 2019. My sample does not contain any scores from the new ESG Risk Ratings methodology.

Figure 1. *2009 v. 2019: Number of Sustainability Reports by Industry in Sample*



Identifying Integrated Social Performance

My measure of integrated social performance comes from consolidating and analyzing data points at an industry level from Sustainalytics. Based on my literature review, I defined a company as having integrated social performance if they showed superior performance in a given year in addressing the needs of all three main stakeholder groups: those in their supply chain, their employees, and the local community. More specifically, a company is defined as having integrated social performance if their Sustainalytics score exceeds their industry peers by at least one standard deviation in all three of the aforementioned categories for that year. I chose to measure companies against their industry peers instead of the entire Sustainalytics database because historically, ESG progress has varied significantly by industry.

To determine whether a particular company's supply chain performance exceeded its industry peers in a given year, I first had to aggregate the sub-components of supply chain relevant scores for a firm in Sustainalytics for each month. To determine a company's supply chain impact for each month of data, I summed the Sustainalytics scores for certain s_2 labeled

sub-component measures as listed below. I did not include any s_2 sub-component measures that referenced negative events (e.g., s_2_3 Social Supply Chain Incidents was excluded). I also excluded any measures that were used for my independent variables. Then, I created an average supply chain score for each firm-year using this monthly supply chain data.

Table 1. *Supply chain measure includes:*

Variable Name	**Description**
s_2_1	Scope of social supply chain standards
s_2_1_1	Quality of social supply chain standards
s_2_1_2	Membership in the Electronic Industry Citizenship Coalition
s_2_1_3	Policy on Conflict Minerals
s_2_1_3_1	Conflict Minerals Programs
s_2_2	Supply Chain Monitoring System
s_2_2_1	Supply Chain Audits
s_2_2_2	Reporting on Supply Chain Monitoring and Enforcement
s_2_2_2_1	Supply Chain Management
s_2_2_3	External Social Certification of Suppliers
s_2_2_4	Fair trade products

From this firm-year average supply chain performance score, I determined what the mean and standard deviation supply chain performance score was in each industry group for each year using the Sustainalytics measure "Peer Group Root" to identify industry. Each company in each year then received a 1 for the Supply Chain Exceeds variable if their supply chain score exceeded their industry mean plus one standard deviation in a given year, else 0.

Likewise, to measure a company's impact on their employees, I aggregated the sub-components of employee relevant scores for a firm in Sustainalytics for each month using the s_1 measures described in the table below. I then created an average employee performance score for each firm-year using this monthly supply chain data.

Table 2. *Employee measure includes:*

Variable Name	**Description**
s_1_1	Policy on Freedom of Association
s_1_1_1	Formal Policy on Working Conditions
s_1_2	Formal Policy on the Elimination of Discrimination
s_1_3	Programs to Increase Workforce Diversity
s_1_4	Percentage of Employees Covered by Collective Bargaining Agreements
s_1_6	Top Employer Recognition
s_1_6_1	Employee Training
s_1_6_2	Programs and Targets to Reduce Health and Safety Incidents
s_1_6_2_1	Health and Safety Management System
s_1_6_3	Programs to Address HIV/AIDS Among its Workforce
s_1_6_4	Health and Safety Certifications
s_1_6_5	Trend in lost-time incident rate

From this firm-year average employee performance score, I determined what the mean and standard deviation employee performance score was in each industry group for each year using the Sustainalytics measure "Peer Group Root" to identify industry. Each company in each

year then received a 1 for their Employee Exceeds variable if their employee score exceeded their industry mean plus one standard deviation in a given year, else 0.

Next, to measure a company's impact on their local community, I aggregated the sub-components of philanthropy and community relevant scores for a firm in Sustainalytics for each month using the s_4 measures and s_5 measures described in the table below. I then created an average community performance score for each firm-year using this monthly philanthropy and community data.

Table 3. *Local Community measure includes:*

Variable Name	**Description**
s_4_2_1	Human Rights Policy
s_4_2_10	Policies and Programs to Promote Access to Basic Services
s_1_4_2_11	Local Community Development Programs
s_1_4_2_12	Programs to Address Digital Divide
s_1_4_2_13	Policy on Drug Donations
s_1_4_2_14	Value of Drug Donations Relative to EBIT
s_1_4_2_2	Community Engagement programs
s_1_4_2_3	Programs and Targets to Promote Access to Financial Services for Disadvantaged People
s_1_4_2_4	Policies and Management Systems on Access to Medicines
s_1_4_2_5	Programs and Initiatives to Develop Medicines for Neglected Diseases
s_1_4_2_6	Equitable Pricing Programs for Medicines
s_1_4_2_7	Policies on Access to Healthcare
s_1_4_2_8	Programs to Support Independent Media

s_1_4_2_9	Policy on Indigenous People and Land Rights
s_5_1	Guidelines for Philanthropic Activities and Primary Areas of Support
s_5_2	Corporate Foundation
s_5_3	Percent Cash Donations of NEBT

From this firm-year average community performance score, I determined what the mean and standard deviation community score was in each industry group for each year using the Sustainalytics measure "Peer Group Root" to identify industry. Each company in each year then received a 1 for their Community Exceeds variable if their community score exceeded their industry mean plus one standard deviation in a given year, else 0.

From these three binary scores – Supply Chain Exceeds, Employee Exceeds, and Community Exceeds - I determined two dependent variables. The first dependent variable is a binary variable equal to 1 if all three of the exceeds measures are also a 1, else 0 (*Integrated Social Performance*). Figure 2 illustrates the number of firms that achieved integrated social performance per year. So that I could also ascertain how my variables of interest affected progress towards reaching integrated social performance, I created a second dependent variable that is a count variable equal to the sum of each of these exceeds measures (*Social Progress*). Illustrated in Figure 3 is the social progress by year for the sample – for example, you can see that the number of firms with zero exceed measures are decreasing over time, indicating that more firms are making social progress.

Figure 2. *Number of Firms in Sample that Achieved Integrated Social Performance by Year*

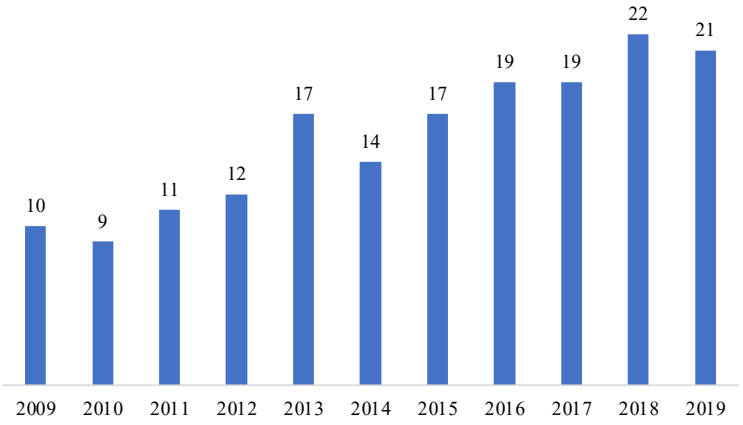
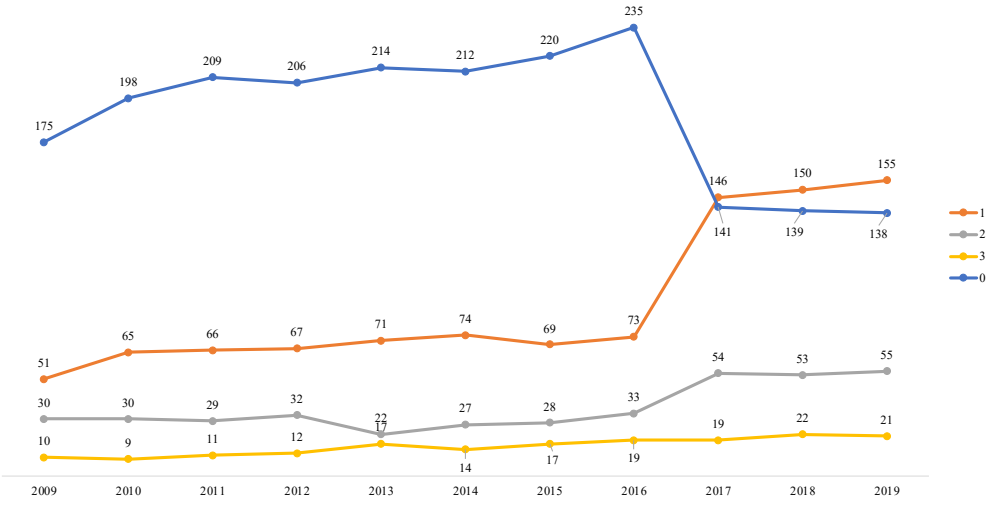


Figure 3. *Social Progress by Year*



Identifying Leadership Diversity

I have identified three measures to represent leadership diversity. The first two measures are derived from Execucomp data. Female Executive Percentage (*FemaleExec*) is the ratio of female executives to total executives in a given firm-year. Female CEO is a binary variable equal to 1 if the chief executive officer is female in a given firm-year, else 0 (*FemaleCEO*). My third measure of leadership diversity is the Sustainalytics variable for Board Diversity

(*BoardDiversity*), which considers both gender and racial diversity at the board of directors level (Naciti 2019).

Identifying Sustainability Governance Structures

To measure the presence of sustainability governance structures, I aggregated the sub-components of sustainability governance relevant scores for a firm in Sustainalytics for each month using the g_1 and g_2 measures described in the table below. I then created an average Sustainability Governance score for each firm-year using this monthly data (*SustGov*).

Table 4. *Presence of Sustainability Governance Structures Measure includes:*

Variable Name	**Description**
g_1_1	Policy on Bribery and Corruption
g_1_1_1	Programs to Combat Bribery and Corruption
g_1_2	Whistleblower Programs
g_1_3	Signatory to UN Global Compact
g_1_3_1	Signatory to UN Principles for Responsible Investment
g_1_3_2	Policy on Responsible Investment
g_1_3_3	Member of UNEP Finance Initiative
g_1_3_4	Membership in Initiatives Promoting Sustainable Buildings
g_1_3_5	Equator Principle and Related Reporting
g_2_1	CSR Reporting Quality
g_2_10	Audit Committee Independence
g_2_2	External Verification of CSR Reporting
g_2_5	Oversight of ESG Issues
g_2_5_1	In-house team dedicated to responsible investment/finance

g_2_6	Executive compensation tied to ESG performance
s_2_2	Supply Chain Monitoring System
s_2_2_2	Reporting on Supply Chain Monitoring and Enforcement
s_2_2_3	External social certification of suppliers

Identifying Financial Resources

To measure financial resources, I used data from S&P's Compustat database. Specifically, I looked at the working capital ratio (*WorkingCap*) because this measure is a good approximation of slack resources that are available to be invested in social projects. Accordingly, the working capital ratio can help indicate whether or not slack resources could impact a company's ability to achieve an integrated social performance. While I also considered other measures such as ROA, operating profit margin, and market valuation, ultimately, I chose to not include them in my model due to multi-collinearity concerns.

Control Measures

To isolate the effects for my variables of interest, I included two control measures in my analysis. Based on previous research surrounding ESG performance, I controlled for size (*Size*) and early adopters (*EarlyAdopter*). Firm size was calculated as the natural log of total assets. I categorized companies as early adopters if they published a sustainability report in 2009. Each company received a 1 if a report was published in 2009, else 0. I did not control for industry because my dependent variable (*Integrated Social Performance*) is already measured at the industry level.

Model Specifications

In order to test the relationships among integrated social performance and leadership diversity, sustainability governance structures, and financial resources, I used two estimation procedures and accounted for a one-year lag time. To predict integrated social performance, I used a logistic regression model as follows:

$$Integrated\ Social\ Performance = \alpha + \beta 1 BoardDiversity_{t-1} + \beta 2 FemaleCEO_{t-1} + \beta 3 FemaleExec_{t-1} + \beta 4 SustGov_{t-1} + \beta 5 WorkingCap_{t-1} + \beta 6 Size_{t-1} + \beta 7 EarlyAdopter_{t-1} + FirmEffects + YearEffects$$

To predict social progress (*Social Progress)*, I used a Poisson regression model, which is an appropriate estimation procedure when the dependent variable is a count variable. I assume that the social progress score will increase according to the Poisson probability distribution:

$$P\big(Y(ft)\big) = \tau_{ft}^{Y(ft)} e^{-\tau(ft)} / Y(ft)!$$

τ_{ft} is the expected value of a Poisson distribution (i.e., the expected number of points from the Supply Chain Exceeds, Employee Exceeds, and Community Exceeds measures) achieved by firm *f* in year *t*. Therefore, *Y(ft)* is the actual number of social performance points achieved.

V. EMPIRICAL RESULTS

Descriptive Statistics

Table 5 provides descriptive statistics illustrating the characteristics of the sample. Of note is the fact that less than five percent of the sample achieved integrated social performance (*Integrated Social Performance*) on average in a given year, indicating that this level of performance is quite rare. Making progress towards integrated social performance was also difficult as evidenced by the low average score for *Social Progress*; on average, firms scored a

0.628 out of a maximum score of 3 in a given year. With board diversity, the average firm scored a 0.522 in a given year, while the scores ranged from a 0 to 1.360. On average, 7% of firms had a female CEO in a given year. In my sample, a firm's executive suite, on average, consists of 9.7% female in a given year. The highest percentage of females in an executive suite was 60% in a given year with the lowest percentage being 0%. With the *SustGov* measure, firms in the sample had an average score of 3.987 in a given year, with a low of 0 and a maximum of 10.896. In addition, on average, the firms have strong liquidity (a mean of 1.827 in the working capital ratio). With the two control factors, on average, the firms are large (mean of natural log of total assets = 9.579) and a majority of them were early adopters of ESG reporting (80.2%).

Table 5. *Descriptive Statistics*

Variable	Observations	Mean	Std. dev.	Min	Max
Integrated Social Performance	3,638	0.047	0.212	0	1
Social Progress	3,638	0.628	0.855	0	3
BoardDiversity	3,638	0.522	0.390	0	1.360
FemaleCEO	3,638	0.070	0.254	0	1
FemaleExec	3,638	0.097	0.128	0	0.6
SustGov	3,638	3.987	1.760	0	10.896
WorkingCap Ratio	3,638	1.827	1.358	0	17.787
Size	3,638	9.579	1.237	5.097	13.221
EarlyAdopter	3,638	0.802	0.398	0	1

Table 6. Pearson Correlations for Dependent & Independent Variables

	Integrated Social Perf	Social Progress	Board Diversity	Female CEO	Female Exec	SustGov
Integrated Social Perf	1.00					
Social Progress	0.62	1.00				
BoardDiversity	0.03	0.05	1.00			
FemaleCEO	0.12	0.16	0.11	1.00		
FemaleExec	0.10	0.18	0.03	0.42	1.00	
SustGov	0.18	0.31	0.20	0.14	0.21	1.00
WorkingCap	0.00	-0.04	-0.10	-0.08	-0.04	-0.23
Size	0.16	0.32	0.23	0.11	0.12	0.48
EarlyAdopter	0.08	0.15	0.38	0.06	0.04	0.28

	Working Cap	Size	Early Adopter
WorkingCap	1.00		
Size	-0.32	1.00	
EarlyAdopter	-0.17	0.38	1.00

Table 7. *Predicting Integrated Social Performance Using Firm-Fixed Effects Time Series Estimation*

Logistic Regression					
	Model 1 *Control Variables*	Model 2 *Hypothesis 1*	Model 3 *Hypothesis 2*	Model 4 *Hypothesis 3*	Model 5 *Complete Model*
Intercept	**-22.49***** (3.18)	**-21.52***** (3.41)	**-22.20***** (4.24)	**-24.01***** (3.41)	**-23.05***** (4.38)
$BoardDiversity_{t-1}$		-0.12 (0.39)			-0.24 (0.39)
$FemaleCEO_{t-1}$		**1.68*** (0.65)			**1.70*** (0.66)
$FemaleExec_{t-1}$		1.30 (1.28)			1.29 (1.30)
$SustGov_{t-1}$			**0.20*** (0.11)		**0.19*** (0.11)
$WorkingCap_{t-1}$				**0.31*** (0.17)	**0.37**** (0.17)
$Size_{t-1}$	**1.48***** (0.27)	**1.38***** (0.29)	**1.39***** (0.36)	**1.57***** (0.28)	**1.40***** (0.36)
$EarlyAdopter_{t-1}$	1.10 (1.05)	1.11 (1.07)	1.03 (1.06)	1.21 (1.07)	1.15 (1.04)
Wald Chi^2	30.33	36.34	22.24	31.74	33.68
Number of Observations	3,244	3,244	3,244	3,244	3,244
Number of Firms (Groups)	373	373	373	373	373

*, **, *** Indicate statistical significance at the <= 0.10, 0.05, and 0.01 levels, respectively (two-tailed). This table presents the results of the Logistic time series estimation predicting integrated social performance at the firm level. Year fixed effects are included. Standard errors are clustered at the firm level and reported in parentheses. Variable definitions are provided in the Appendix.

Table 8. *Predicting Social Progress Using Firm-Fixed Effects Time Series Estimation*

Poisson Regression					
	Model 1 *Control Variables*	Model 2 *Hypothesis 1*	Model 3 *Hypothesis 2*	Model 4 *Hypothesis 3*	Model 5 *Complete Model*
Intercept	**-4.65***** (0.41)	**-4.50***** (0.41)	**-4.47***** (0.41)	**-4.58***** (0.44)	**-4.34***** (0.43)
$BoardDiversity_{t-1}$		-0.06 (0.07)			-0.07 (0.07)
$FemaleCEO_{t-1}$		**0.25*** (0.15)			0.22 (0.15)
$FemaleExec_{t-1}$		**0.66***** (0.25)			**0.62***** (0.25)
$SustGov_{t-1}$			**0.09***** (0.02)		**0.08***** (0.02)
$WorkingCap_{t-1}$				-0.01 (0.03)	0.00 (0.03)
$Size_{t-1}$	**0.43***** (0.04)	**0.41***** (0.04)	**0.38***** (0.05)	**0.43***** (0.05)	**0.36***** (0.05)
$EarlyAdopter_{t-1}$	0.02 (0.15)	0.03 (0.15)	-0.03 (0.14)	0.01 (0.15)	-0.00 (0.15)
Wald Chi^2	103.47	120.57	120.30	103.57	135.30
Number of Observations	3,244	3,244	3,244	3,244	3,244
Number of Firms (Groups)	373	373	373	373	373

*, **, *** Indicate statistical significance at the <= 0.10, 0.05, and 0.01 levels, respectively (two-tailed). This table presents the results of the Poisson time series estimation predicting social progress at the firm level. Year fixed effects are included. Standard errors are clustered at the firm level and reported in parentheses. Variable definitions are provided in Appendix A.

Predicting Integrated Social Performance

Tables 7 and 8 report the results of the stepwise regression analyses used to test my hypotheses. In Model 1 of Table 7 (controls), Size ($\beta = 1.48$, *p-value* ≤ 0.01) is the only control variable that is a significant predictor of integrated social performance.

Regarding Hypothesis 1 that leadership diversity is positively related to integrated social performance (Table 7, Model 2), the results are mixed. Specifically, I find that the effects of board diversity (*BoardDiversity*) and female executives (*FemaleExec*) on integrated social performance are insignificant. However, I find that the main effect for female CEOs (*FemaleCEO*) on integrated social performance is significant ($\beta = 1.68$, *p-value* ≤ 0.10). Interpreting these results, having a female CEO increased a firm's odds of achieving integrated social performance by roughly 437%, holding all other terms constant (e^{β}- 1).

Regarding Hypothesis 2 that the presence of sustainable governance structures predicts integrated social performance (Table 7, Model 3), I find that the main effect for *SustGov* on integrated social performance is positive and significant ($\beta = 0.20$, *p-value* ≤ 0.10). Interpreting these results, a one unit increase in a firm's sustainable governance score increased a firm's odds of achieving integrated performance by roughly 22%, holding all other terms constant.

Regarding Hypothesis 3 that having financial resources, measured by the working capital ratio, is positively related to integrated social performance (Table 7, Model 4), I find that the main effect for *WorkingCap* on integrated social performance is positive and significant ($\beta =$ 0.31, *p-value* ≤ 0.10). Interpreting these results, a one unit increase in a firm's working capital ratio increased a firm's odds of achieving integrated performance by roughly 36%, holding all other terms constant.

Putting all of these independent variables together to assess their predictive value in a complete model (Table 7, Model 5), I find that the main effect for the presence of a female CEO (*FemaleCEO*) remains positive and significant ($\beta = 1.70$, *p-value* ≤ 0.10). Sustainability governance structures (*SustGov*) also remain positive and significant ($\beta = 0.19$, *p-value* ≤ 0.10) as does the effect of financial resources (*WorkingCap*) ($\beta = 0.37$, *p-value* ≤ 0.05). The control variable for size also remains a significant predictor of integrated social performance ($\beta = 1.40$, *p-value* ≤ 0.01).

Interpreting the results of this complete model, having a female CEO increased a firm's odds of achieving integrated social performance by roughly 447%, holding all other terms constant. A one unit increase in the sustainability governance structures score also increased a firm's odds of achieving integrated social performance by 21%, holding all other terms constant. And lastly, a one unit increase in a firm's working capital ratio increased a firm's odds of achieving integrated social performance by 45%, holding all other terms constant.

Predicting Social Progress

Since so few firms were able to achieve integrated social performance in my sample, I was curious to see if the same factors that increased the odds of achieving this goal also helped companies to make progress in at least some areas of social performance. The results of this step-wise Poisson estimation of social progress are presented in Table 8.

Model 5 of Table 8 presents the complete model for predicting the total number of points from the Supply Chain Exceeds, Employee Exceeds, and Community Exceeds measures, which ranges from zero to three (*Social Progress*). Unlike with integrated social performance, having a female CEO is not significant, but the main effect for the percentage of female executives (*FemaleExec*) on social progress is positive and significant ($\beta = 0.62$, *p-value* ≤ 0.01). The main

effect for sustainability governance structures on social progress is positive and significant (β = 0.08, *p-value* $\leq$ 0.01). In contrast with integrated social performance, the effect of financial resources on social progress is insignificant. Size was also the only significant control variable (β = 0.36, *p-value* $\leq$ 0.01). These results can be interpreted as follows: Having a one unit increase in the percentage of female executives increased a firm's rate of social progress by roughly 86%, holding all other terms constant. Likewise, having a one unit increase in the sustainability governance structures score increased a firm's rate of social progress by roughly 8%, holding all other terms constant.

VI. DISCUSSION AND CONCLUSION

A corporation's responsibility extends well past just shareholders. This paper is built on the underlying belief that corporations have not only a responsibility to maximize profits, but also a social responsibility to treat *all* their stakeholders with dignity and respect. I aim to understand the driving forces that enable corporations to fulfill their social responsibility to all stakeholders without having to make tradeoffs, which I have defined as integrated social performance. Specifically, this paper looked at how leadership diversity, the presence of sustainability governance structures, and financial resources affect a firm's integrated social performance.

With both integrated social performance (Table 7, Model 5) and social progress (Table 8, Model 5), the presence of sustainability governance structures (*SustGov*) was both significant and positive. This finding emphasizes the importance of companies having regulatory structures in place to ensure social responsibility obligations are being met. These checks and balances are integral because they have a lasting impact in shaping a company's ability to fulfill their social responsibility and make a positive social impact. Sustainable governance structures are important

for both a company's progress towards achieving integrated social performance as well as excelling at social performance.

In addition, the presence of a female CEO had a significant, positive impact on integrated social performance, whereas a greater proportion of female executives predicts social progress. Both findings point to the power of organizational leadership. A CEO manages a company's operations and sets the tone for the rest of the company; so, the presence of a female CEO would have a much greater influence than just the presence of female executives at achieving and maintaining superior social performance. However, because the presence of female executives was significant when looking at company progress, this can be an indicator that having a more diverse C-suite is an integral step to improving social performance.

With looking at financial resources, I found that having financial resources (*WorkingCap*) was a positive and significant predictor for companies with integrated social performance. This means that companies that have more liquidity, where their current assets are more than sufficient in covering any current liabilities, are better able to achieve integrated social performance. This finding supports the slack resources theory, which states that firms must have sufficient financial resources before they are able to achieve corporate social performance. Interestingly, my findings showed that having financial resources was not a significant predictor of social progress. I would have expected financial resources to be significant for both achieving integrated social performance and social progress due to the financial investment needed. However, it is also important to note that size, one of my control variables and was positive and significant, would also be a proxy for financial resources. These mixed findings could indicate that financial resources are less instrumental to company's progress but integral for companies who want to achieve integrated social performance.

Limitations

It is important to acknowledge that this research does have a number of limitations. Based on the limitations of the Sustainalytics dataset, I am unable to extend my findings to firms that are private or firms in other countries. In addition, as seen in my descriptive statistics analysis (*Table 5*), my sample is biased towards larger firms since the dataset only reflects publicly traded companies.

There are also a number of limitations with regard to the construction of the predictor variables in this study. Specifically, with my Leadership Diversity measures (*BoardDiversity, FemaleCEO, FemaleExec*), they simply measured the presence of diversity, which may not necessarily correlate with actions that provide a greater focus on social responsibility. For example, one aspect of board diversity is the gender diversity on the board – board diversity does not consider the actual contributions women on boards make to corporate social responsibility initiatives. In addition to gender diversity, prior research finds that a board's function is rooted in a set of social interactions and contexts, where gender, power, and leadership are linked (Fletcher 2004). The Sustainalytics data I was able to access also ended in 2019, which means my findings do not account for the effects of the pandemic or the increased focus on social performance following the Black Lives Matter protests of 2020.

Finally, because I constructed my dependent variables from Sustainalytics data, and I am not privy to the intricacies of the Sustainalytics methodology, I cannot be sure that what I believe to be integrated social performance is actually the absence of trade-offs being made among stakeholder groups. There are also the potential problems of endogeneity and omitted variable bias in the empirical results, which I have attempted to minimize through the careful construction

of my independent variables but would be better addressed through more advanced empirical methods such as the use of an instrumental variable.

Contributions to Research

Prior research has often viewed ESG as an independent variable, examining ESG's influence on outcomes such as a firm's financial performance (Wang and Sarkis 2013; Siew et al. 2013; Ameyda and Darmansya 2019; Sinha Ray and Goel 2022). In contrast, my research takes a component of ESG, the social aspect, and examines what factors affect performance in this realm. Of the ESG components, the environmental component tends to be the most heavily researched in academia and is a focal point for many companies. Instead, I focused my attention on the social component of ESG, because it has not been as heavily researched, and I wanted to highlight its importance to human capabilities and social justice.

My belief that every individual deserves dignity and respect and that companies have a responsibility to stakeholders (not just shareholders), has allowed me to build a new conceptualization of this responsibility, which I termed Integrated Social Performance. I theorized that it was possible for companies to avoid the trap of making trade-offs among the different stakeholders in their supply chains, employee ranks, and local communities when the right leadership, governance structures, and financial resources were in place. Stakeholder theory pushes corporations to think more thoughtfully and intentionally about how their actions affect the broader society and to avoid the temptation to sacrifice the good of one stakeholder for another.

It is easy to rationalize these trade-offs as the practical reality of running a firm in a capitalistic society, especially when time and money are in short supply. However, my findings suggest that the original stakeholder theory wherein managers actively avoid making such

sacrifices and instead use moral imagination to develop alternative approaches that serve the needs of all stakeholders – while exceedingly rare – is possible. Perhaps the firms that try this radical approach to managing for stakeholders are successful and continue to fight the temptation to make trade-offs among their stakeholders – this strategy allows them to overcome resource scarcity in a virtuous cycle of investment. The more that firms invest in their employees, the greater their ability to attract and retain the best of them. The more that they invest in their supply chains, the safer and more resilient these supply chains become. And, the more that they invest in their communities, the more supportive these communities become and the greater the firm's reputation for trust and integrity.

While ethical and management theories do build the foundation for my research, I believe the results of my study also have much to say to practitioners and can even serve as guidance for companies on how they can fulfill their responsibilities to their stakeholders. The importance of establishing sustainability governance structures cannot be understated. Some examples of these structures include the external social certification of suppliers, a policy on responsible investment, and executive compensation being tied to firm ESG performance. These structures lay the groundwork for firms' sustainability initiatives and are geared towards a long-term focus. They allow companies to be proactive instead of reactive, which increases actual societal impact and decreases greenwashing and performative actions.

Likewise, my research underscores the importance of gender diversity in leadership for making social progress and ultimately achieving integrated social performance. Research has continuously proven that diversity is integral to the workplace and just "good for business." Having diversity is simply the first step – the next step is to foster a culture that embraces and values diversity. Fostering an inclusive culture takes time and intentionality, and it starts from

the top. Specifically, this means putting more females in leadership/decision-making roles. Ultimately, firms must create structures and cultivate an environment that will allow them to uphold their responsibilities to stakeholders.

APPENDIX

Variable Definitions

Variable	Definition
IntegratedSocialPerformance	A binary variable equal to 1 if a firm exceeds in all three measures (Local Community, Supply Chain, Employee) in a given firm-year, else 0. An "exceeds" score is achieved if a firm's score is at least one standard deviation above the industry mean.
SocialProgress	A count variable equal to the sum of each of a firm's exceeds measures (Local Community, Supply Chain, Employee) in a given firm-year.
BoardDiversity	A Sustainalytics measure that ranges from 0 -100, based on gender and racial diversity. The higher the score, the more diverse the board.
FemaleCEO	A binary variable equal to 1 if a firm has a female CEO in a given firm-year, else 0.
FemaleExec	Ratio of female executives to total executives in a given firm-year.
SustGov	Aggregation of sub-components of Sustainalytics' sustainability governance relevant scores using g_1 and g_2 measures. Then, averaged for each firm-year.
WorkingCap	Current assets divided by current liabilities.
Size	The natural log of total assets in a given fiscal year (t).
EarlyAdopter	A binary variable equal to 1 if a firm published a sustainability report in 2009, else 0.

List of Firms in Sample

3M Co	Cummins Inc	Juniper Networks, Inc.	Rockwell Automation Inc.
A. O. Smith Corporation	CVS Caremark Corporation	Kansas City Southern	Rollins Inc.
Abbott Laboratories	Danaher Corp	Kellogg Co	Roper Industries Inc.
AbbVie Inc.	Darden Restaurants, Inc.	Keysight Technologies Inc	Ross Stores Inc.
Abiomed Inc	DaVita HealthCare Partners Inc.	Kimberly-Clark Corp	Royal Caribbean Cruises Ltd.
Activision Blizzard, Inc.	Delta Air Lines Inc	Kinder Morgan, Inc.	S&P Global Inc
Adobe Systems Inc	DENTSPLY International Inc.	KLA-Tencor Corp	Salesforce.com
Advance Auto Parts Inc	Devon Energy Corp	Kraft Heinz Intermediate Corporation II	SBA Communications Corp.
Advanced Micro Devices Inc	DexCom Inc	Laboratory Corp. of America Holdings	Schlumberger Limited
Agilent Technologies Inc	Diamondback Energy Inc	Lam Research Corporation	Sealed Air Corporation
Air Products & Chemicals Inc	Discovery Inc	Lamb Weston Holdings, Inc.	Sempra Energy
Akamai Technologies Inc	DISH Network Corp	Las Vegas Sands Corp.	ServiceNow Inc
Alaska Air Group Inc	Dollar General Corp	Leggett & Platt, Incorporated	Skyworks Solutions Inc
Albemarle Corp	Dollar Tree Inc	Leidos Holdings Inc	Snap-On Inc.
Align Technology Inc	Dominion Energy Inc	Live Nation Entertainment, Inc.	Southern Co
Alliant Energy Corporation	Domino's Pizza, Inc.	LKQ Corp.	Southwest Airlines Co.
Alphabet Inc	Dover Corp	Lockheed Martin Corp	Stanley Black & Decker, Inc.
Altria Group Inc.	DowDuPont Inc.	Lowe's Companies Inc	Starbucks Corporation
Amazon.com Inc	DTE Energy Co	LyondellBasell Industries N.V.	Stryker Corp.
Ameren Corporation	Duke Energy Corp	Marathon Oil Corporation	Synopsys Inc.
American Airlines Group Inc	DXC Technology Co	Marathon Petroleum Corp	Sysco Corp

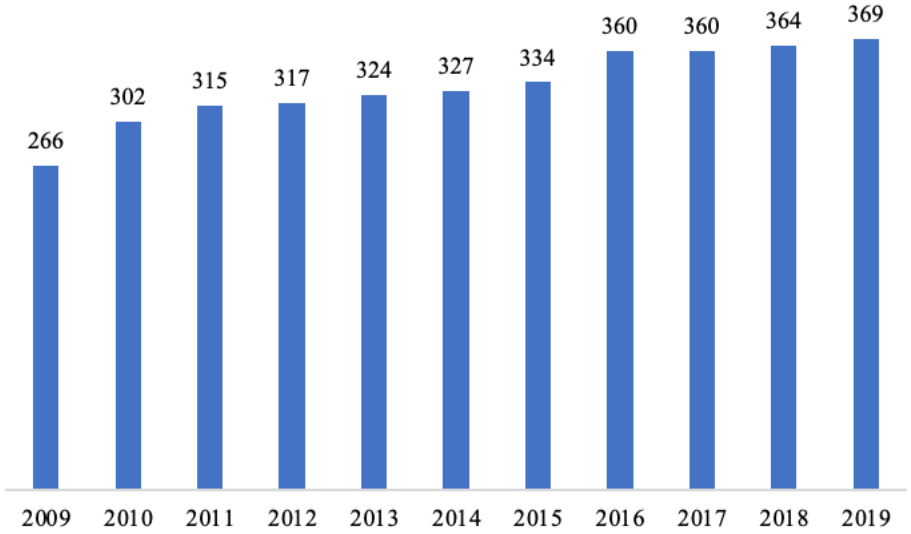
American Electric Power Co Inc	Eastman Chemical Co	Marriott International, Inc.	T-Mobile US, Inc.
American Tower Corp	eBay Inc	Marsh & McLennan Companies, Inc.	Take-Two Interactive Software Inc.
American Water Works Co Inc	Ecolab Inc	Martin Marietta Materials Inc.	Target Corp
AmerisourceBergen Corp	Edison International	Masco Corp	Teledyne Technologies Inc.
Ametek Inc.	Edwards Lifesciences Corp.	MasterCard Incorporated	Teleflex Incorporated
Amgen Inc	Electronic Arts Inc	McCormick & Co Inc	Teradyne Inc.
Amphenol Corp	Eli Lilly & Co.	McDonald's Corp	Tesla Inc
Analog Devices Inc	Emerson Electric Co	McKesson Corp	Texas Instruments Inc
Ansys Inc	Enphase Energy, Inc.	Medtronic, Inc.	Textron Inc.
Anthem Inc	Entergy Corp	Merck & Co Inc	The AES Corporation
Apache Corp	EOG Resources Inc	Mettler-Toledo International Inc.	The Clorox Company
Apple Inc	Equifax Inc	MGM Resorts International	The Cooper Companies Inc
Applied Materials Inc	Equinix Inc	Microchip Technology Inc.	The Home Depot Inc
Archer Daniels Midland Company	Evergy, Inc.	Micron Technology Inc	The Interpublic Group of Companies Inc
Arista Networks, Inc.	Eversource Energy	Microsoft Corp	The J. M. Smucker Company
Arthur J Gallagher & Co.	Exelon Corporation	Mohawk Industries Inc.	The Kroger Co
AT&T Inc	Expedia Group Inc	Molson Coors Brewing Co	The Mosaic Company
Atmos Energy Corp	Expeditors International of Washington Inc	Mondelez International, Inc.	The Sherwin-Williams Company
Autodesk Inc	Exxon Mobil Corporation	Monolithic Power Systems Inc.	The TJX Companies, Inc.
Automatic Data Processing Inc	F5 Networks, Inc.	Monster Beverage Corporation	The Walt Disney Company
AutoZone Inc	Facebook Inc	Moody's Corp.	The Williams Companies, Inc.

Avery Dennison Corp	Fastenal Co	Motorola Solutions, Inc.	Thermo Fisher Scientific Inc.
Ball Corp	FedEx Corp	MSCI Inc.	Tractor Supply Company
Baxter International Inc	Fidelity National Information Services Inc	Nasdaq OMX Group Inc.	TransDigm Group Inc
Becton, Dickinson and Co	FirstEnergy Corp.	National Oilwell Varco, Inc.	Trimble Inc
Best Buy Co Inc	Fiserv Inc	NetApp, Inc.	Twenty-First Century Fox, Inc.
Bio-Rad Laboratories Inc	Fleetcor Technologies Inc	Netflix, Inc.	Twitter, Inc.
Bio-Techne Corp	FMC Corp	Newell Brands Inc	Tyler Technologies, Inc.
Biogen Idec Inc.	Ford Motor Co	Newmont Goldcorp Corp.	Tyson Foods Inc
Boeing Co.	Fortinet Inc	News Corp	Ulta Beauty, Inc.
Booking Holdings Inc	Fortive Corporation	NextEra Energy Inc	Under Armour, Inc.
BorgWarner Inc	Fortune Brands Home & Security, Inc.	Nielsen Holdings plc	Union Pacific Corporation
Boston Scientific Corporation	Fox Corporation		
Bristol-Myers Squibb Company	Freeport-McMoRan Copper & Gold Inc.	Nike Inc.	United Continental Holdings, Inc.
Broadcom Ltd	Gap Inc	NiSource Inc.	United Parcel Service Inc
Broadridge Financial Solutions Inc	Gartner Inc	Norfolk Southern Corp.	UnitedHealth Group Inc
Brown-Forman Corp	Generac Holdings Inc.	Northrop Grumman Corporation	V.F. Corporation
C.H. Robinson Worldwide, Inc.	General Dynamics Corp	Norwegian Cruise Line Holdings Ltd.	Valero Energy Corporation
Cabot Oil & Gas Corp	General Mills Inc	NRG Energy, Inc.	VeriSign, Inc.
Cadence Design Systems Inc	General Motors Company	Nucor Corp	Verisk Analytics Inc
Caesars Entertainment Corporation	Genuine Parts Co	NVIDIA Corporation	Verizon Communications Inc.

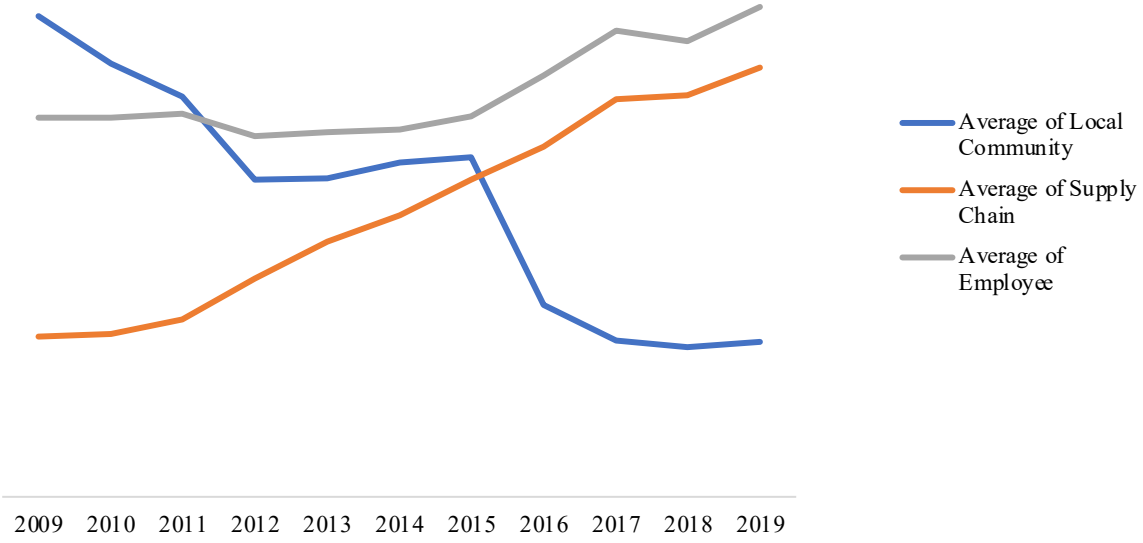
Campbell Soup Co	Gilead Sciences Inc	O'Reilly Automotive Inc.	Vertex Pharmaceuticals Incorporated
Cardinal Health Inc	Global Payments Inc.	Occidental Petroleum Corporation	Visa Inc.
CarMax Inc.	Halliburton Co	Old Dominion Freight Line Inc.	Vulcan Materials Company
Carnival Corp	Hanesbrands Inc.	Omnicom Group Inc.	W.W. Grainger Inc
Catalent, Inc.	Hasbro Inc	ONEOK Inc.	Walgreen Co.
Caterpillar Inc	HCA Healthcare Inc	Oracle Corp	Walmart Inc.
Cboe Global Markets, Inc.	Henry Schein, Inc.	Packaging Corp. of America	Waste Management Inc
CBRE Group, Inc.	Hershey Co.	Parker Hannifin Corporation	Waters Corp.
CDW Corporation	Hess Corp	Paychex Inc.	WEC Energy Group, Inc.
Celanese Corporation	Hewlett Packard Enterprise Co	Paycom Software Inc	West Pharmaceutical Services, Inc.
Centene Corp	Hewlett-Packard Company	PayPal Holdings Inc	Western Digital Corp.
CenterPoint Energy Inc	Hilton Worldwide Holdings Inc.	Penn National Gaming Inc.	Westinghouse Air Brake Technologies Corporation
Cerner Corp	Hologic Inc	Pentair, Inc.	Weyerhaeuser Co
CF Industries Holdings Inc	Honeywell International Inc	PepsiCo, Inc.	Whirlpool Corp.
Charles River Laboratories International, Inc.	Hormel Foods Corp	PerkinElmer Inc	Wynn Resorts Ltd.
Charter Communications Inc	Humana Inc.	Perrigo Co.	Xcel Energy Inc.
Chevron Corporation	Huntington Ingalls Industries, Inc.	Pfizer Inc	Xilinx Inc.
Chipotle Mexican Grill Inc	IDEX Corporation	Philip Morris International Inc.	Xylem Inc
Church & Dwight Co Inc	IDEXX Laboratories, Inc.	Phillips 66	Yum! Brands, Inc.
Cigna Corp	IHS Inc.	Pinnacle West Capital Corporation	Zebra Technologies Corp.

Cintas Corp	Illinois Tool Works Inc	Pioneer Natural Resources Co.	Zimmer Biomet Holdings Inc
Cisco Systems Inc	Illumina Inc.	Pool Corp.	Zoetis Inc
Citrix Systems Inc	Incyte Corporation	PPG Industries Inc.	
CME Group Inc	Intel Corp	PPL Corp	
CMS Energy Corp	Intercontinental Exchange Inc	Procter & Gamble Co.	
Coach, Inc.	International Business Machines Corp	PTC Inc.	
Coca-Cola Co	International Flavors & Fragrances Inc	Public Service Enterprise Group Inc.	
Cognizant Technology Solutions Corporation	International Paper Co.	PVH Corp.	
Colgate-Palmolive Co	Intuit Inc	Qorvo, Inc.	
Comcast Corp	Intuitive Surgical, Inc.	QUALCOMM Incorporated	
Conagra Brands Inc	Invesco Ltd.	Quanta Services, Inc.	
ConocoPhillips	IPG Photonics Corporation	Quest Diagnostics Inc.	
Consolidated Edison Inc	IQVIA Holdings Inc	Ralph Lauren Corporation	
Constellation Brands Inc	Iron Mountain Inc.	Regeneron Pharmaceuticals, Inc.	
Corning Inc	J.B. Hunt Transport Services, Inc.	Republic Services, Inc.	
Costco Wholesale Corporation	Jack Henry & Associates Inc	ResMed Inc.	
Crown Castle International Corp	Johnson & Johnson	Robert Half International Inc	
CSX Corp	Johnson Controls Inc.	Rock-Tenn Co.	

Number of Firms in Sample with Sustainability Reports by Year



Entire Social Performance over Time



Companies who Achieved Integrated Social Performance by Year

2009	2010	2011	2012
Adobe	Adobe	Abbott Lab	Adobe
Baxter	Baxter	Adobe	Baxter
Coca-Cola	Coca-Cola	Baxter	Cisco
Exxon	Freeport-McMoran	Coca-Cola	Coca-Cola
Freeport-McMoRan	Masco	Freeport-McMoRan	Freeport-McMoRan
Masco	Merck & Co.	Hewlett-Packard	IBM
Merck & Co.	Motorola	IBM	Johnson & Johnson
Nucor Corp.	Nucor	Masco	Masco Corp.
Quanta Services	Starbucks	Merck & Co.	Nucor Corp.
Starbucks		Nucor	Pfizer
		Disney	Starbucks
			Disney

2013	2014	2015	2016
Adobe	Baxter	Baxter	Adobe
Ball Corp.	Best Buy	Freeport-McMoRan	Baxter
Baxter	Coca-Cola	Gap	Cintas
Best Buy	Eli Lilly	HP Company	Freeport-McMoRan
Cintas	Freeport-McMoRan	IBM	Gap
Cisco	IBM	Johnson & Johnson	HP Enterprise
Eli Lilly	Johnson & Johnson	Merck & Co.	HP Company
Exxon	Merck & Co.	Microsoft	Intel
Freeport-McMoRan	Nucor Corp.	Nucor	IBM
Intel	Occidental Petroleum	Oracle	Johnson & Johnson
IBM	Pfizer	PepsiCo	Merck & Co.
Johnson & Johnson	Sempra Energy	Rockwell Automation	Microsoft
Nucor Corp.	Starbucks	Sempra Energy	Nucor
Rockwell Sempra	Disney	Starbucks	Rockwell Automation
Starbucks		Target	Sempra Energy
Disney		TJX	Starbucks
		Disney	Target
			TJX
			Disney

2017	2018	2019
Abbott Laboratories	Abbott Laboratories	AMD
Adobe	Adobe	Alphabet
American Water Works	Alphabet	BorgWarner
Baxter	Baxter	Coca-Cola
CMS Energy	BorgWarner	Comcast
Coca-Cola	Campbell Soup	Freeport-McMoran
Dow DuPont	CMS Energy	Gap
Freeport-McMoran	Cummins	General Mills
Gap	FedEx	Hasbro
HP Enterprise	Freeport-McMoRan	HP Enterprise
Intel	Gap	HP Company
IBM	Hasbro	Intel
Lockheed Martin	HP Enterprise	IBM
Microsoft	Intel Corp	Microsoft
Nucor Corp.	IBM	Nielsen
Rockwell Automation	Microsoft Corp	Nucor Corp.
Starbucks	Nielsen Holdings	Starbucks
TJX	Nucor Corp.	Home Depot
Xcel Energy	PPG Industries	Disney
	Starbucks	UPS
	Disney	Xylem
	Xylem	

List of Industries in Sample

Industry	Number of Firms in Sample
Aerospace & Defense	83
Auto Components	20
Automobiles	28
Banks	172
Building Products	22
Chemicals	141
Commercial Services	93
Construction & Engineering	21
Construction Materials	22
Consumer Durables	55
Consumer Services	145
Containers & Packaging	52
Diversified Financials	244
Diversified Metals	11
Electrical Equipment	46
Energy Services	49
Food Products	217
Food Retailers	77
Healthcare	316
Homebuilders	43
Household Products	55
Industrial Conglomerates	31
Insurance	194
Machinery	131
Media	80
Oil & Gas Producers	125
Paper & Forestry	22
Pharmaceuticals	231
Precious Metals	29
Real Estate	228
Refiners & Pipelines	90
Retailing	220
Semiconductors	150
Software & Services	394
Steel	11
Technology Hardware	166
Telecommunication Services	51
Textiles & Apparel	66

Traders & Distributors	22
Transportation	149
Utilities	297

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