THE VIRTUOUS CORPORATION: ON CORPORATE SOCIAL MOTIVATION AND LAW

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Above and beyond their traditional financial roles, contemporary corporations increasingly assume a normative role, promoting social agendas. The myriad normative roles assumed by the corporation, from profit-centered corporate goodness to environmental and human rights corporate agendas and to corporate philanthropy, comprise an emerging corporate social identity. This article asks what induces corporations to pursue social agendas and provides an initial taxonomy for corporate social motivation showing that the incentives to pursue normative corporate conduct are often rooted in the business purpose itself. Central policy challenges are discussed, outlining the promise and the peril of emerging corporate social identities.

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INTRODUCTION

Above and beyond their traditional financial roles, contemporary corporations are increasingly assuming a normative role, promoting social agendas well beyond their organizational boundaries. According to 2015 sustainability reports, the normative outreach of contemporary S&P 500 corporations is growing with exuberance, notwithstanding their ultimate commitment to shareholder value. Among other social causes, American corporations now tackle chronic malnutrition and hunger, fight disease pandemics, mitigate gender inequality, and promote human rights.1

Promotion of social agendas by corporations is one of the greatest controversies of corporate law. This paper exclusively focuses on a narrower mission: to suggest an initial taxonomy of incentives underlying corporate social agendas. Incentive analyses for corporate social agendas may shed light on the potential merit, and possible risks, of corporate social identities, to be further explored in future works.

Social values are embedded in every corporate decision. Corporations have always generated norms within their organizational boundaries, and social values are embedded in every corporate decision, from employment policies to customer service and business development. Yet, the social agendas assumed by contemporary corporations are open, dynamic, and diverse, stretching far beyond the corporate organizational boundaries and aiming to influence society as a whole. The myriad normative roles


3. See Mark DeWolfe Howe, *The Supreme Court, 1952 Term*, 67 HARV. L. REV. 91, 91 (1953) (arguing that “government must recognize that it is not the sole possessor of sovereignty, and that private groups within the community are entitled to lead their own free lives and exercise within the area of their competence an authority so effective as to justify labeling it a sovereign authority.”). Consider the norm-generating role taken by corporations in employee training. The organization is a sphere of law and sovereignty, and institutional boundaries are used to define the breadth of corporate authority. See generally Shlomit Azgad-Tromer, *The Case for Consumer-Oriented Corporate Governance, Accountability and Disclosure*, 17 U. PA. J. BUS. L. 227 (2015) (discussing the need for corporate disclosure standards for businesses offering products or services to the public to enhance corporate informational accountability).

assumed by the corporation, from profit-centered corporate goodness to environmental and human rights corporate agendas and to corporate philanthropy, comprise an emerging corporate social identity. The article critically explores the strategic incentives underlying corporate social identities, showing that the social engagement of corporations is often rooted in the business purpose itself, and serving to satisfy the normative taste of various stakeholder constituencies, such as responsible investors, engaged employees, virtuous managers, and conscious consumers. A strategic analysis of incentives for corporate social motivation may serve to create a better architecture of corporate law, focusing on variances of corporate behavior that are less likely to be voluntarily addressed.


Contemporary corporations celebrate their organizational conscience\(^\text{10}\) and actively promote social values in their normal business practice. The business of corporate America is not simply business; it is virtuous business. “If you want me to do things only for ROI [Return on Investment] reasons,” advised Apple’s CEO Tim Cook in defense of Apple’s environmental values, “you should get out of this stock.”\(^\text{11}\) This dash for virtue is induced and reported through sustainability reporting, thereby creating a transparent environment for non-financial corporate performance.\(^\text{12}\) Sustainability reporting encourages management to set goals, measure performance, and manage organizational change in a variety of social and moral issues.\(^\text{13}\) G4 standards issued by the Global Reporting Initiative (GRI) set a format of recommended disclosures on stakeholder engagement, ethics and integrity, environmental and social management approaches, labor practices, decent work conditions, product responsibility, human rights and more.\(^\text{14}\) By 2017, it is highly customary for public corporations to disclose sustainability information;\(^\text{15}\) more than 6,000 companies are now issuing sustainability reports,\(^\text{16}\) with 499 of the S&P


12. Mandating the disclosure of non-financial information about corporate performance in environmental, social and governance issues has become, by 2016, widespread, including countries such as the U.K., Denmark, South Africa, China, Malaysia, Brazil, Hong Kong, and India. A recently published study suggests that mandatory sustainability disclosures are associated with increases in firm valuations, as reflected in Tobin’s Q. See Ioannis Ioannou & George Serafeim, The Consequences of Mandatory Corporate Sustainability Reporting: Evidence from Four Countries 2-3 (Harvard Business School, Research Working Paper No. 11-100, 2014), http://ssrn.com/abstract=1799589 [https://perma.cc/HC79-25U5] (describing the countries that require non-financial corporate reports).


500 companies having made a sustainability disclosure or linked financial performance with a sustainability initiative.\footnote{Id.}

Corporations often adhere to the G4 format in reporting about their social impact and sustainability, but sometimes they report in their own format, deciding for themselves what matters in the sphere of their social doing and what activities should be classified as socially responsible.\footnote{See Ikea FY15 Group Sustainability Report, supra note 1 (making it a business priority to have a positive impact on the planet).}


Kering is another good example: in May 2015, it published an open-sourced environmental profit and loss account, voluntarily measuring its environmental footprint in its own operations and across its supply chains, and valuing it in monetary terms.\footnote{Kering is a corporate group in apparel and accessories markets, where it develops and maintains luxury sport and lifestyle brands. Kering is present in more than 120 countries and generated revenues of €10 billion in 2014 with more than 37,000 employees at year end. The Kering stock is listed on Euronext Paris. See generally \textit{Environmental Profit & Loss (E.P.L.)}, KERING (2013), http://www.kering.com/sites/default/files/document/kering_epl_methodology_and_2013_group_results_0.pdf [https://perma.cc/5FGH-PPQF].}

Further social fuel is added to the corporate arena through alternative purpose firms, such as the benefit corporation, which are officially committed to social goals, despite potential conflicts with profit maximization.\footnote{Alicia E. Plerhoples, Delaware Public Benefit Corporations 90 Days Out: Who's Opting In?, 14 U.C. \textsc{Davis} Bus. L.J. 247, 247-280 (2014); Hans Rawhouser, Michael E.Cummings & Andrew Crane, \textit{Benefit Corporation Legislation and the Emergence of a Social Hybrid Category}, 57 Cal. \textsc{Mgmt. Rev.} 13, 13-35 (2015).}

Finally, corporations promote normative agendas through philanthropy; according to statistics released by the Committee Encouraging Corporate Philanthropy’s (CECP) 2015 \textit{Giving in Numbers} report, median total giving as a percentage of pre-tax profit was one percent, both in 2012 and in 2014.\footnote{CECP, Coalition Encouraging Corporate Philanthropy, is a coalition of CEOs “united in the belief that societal improvement is an essential measure of business success.”}
Part I of this article provides an initial taxonomy of incentives for corporate social motivation. Corporations are induced to normative social conduct by the strategic demand of their stakeholder constituencies. Management’s ideology and social values, often labeled in the literature as agency costs, induce corporations to social conduct in compliance with management’s values. Impact and responsible investors demand social performance and create incentives for normative corporate conduct. Employees are better engaged, easier to recruit and have lower turnover and higher productivity when working for normative corporate employers. Normative corporate conduct may also increase revenue, as consumers are more loyal to virtuous brands. Finally, corporations may


24. Howe, supra note 3; Azgard-Tromer, supra note 3; see also Part II A infra (discussing the central policy challenges regarding corporate responsibility under soft corporate governance). For a different view, see Zohar Goshen & Assaf Hamdani, Corporate Control and Idiosyncratic Vision, 125 YALE L.J. 560, 565 (2016) (describing management private values as idiosyncratic visions).


engage in corporate virtue as a political strategy in order to avoid regulation by signaling compliance with social norms, or as a manipulation tactic aimed at achieving a desired regulatory result.28

Part II of this article provides a roadmap for the central policy challenges to the emergence of corporate social identities.29 Contemporary corporations have become norm-generating agents, creating non-binding rules for social activity and normative impact.30 The corporation’s norm-generating role is a decentered process, where stakeholders participate in a dynamic and systemic integration of values into a voluntary,31 self-determined corporate social identity.32 The resulting reflexive network of corporate social identities is proliferated by soft global standardization, setting normative and reporting guidelines for corporate social conduct such as the Global Reporting Initiative (GRI), the Sustainable Accounting Standards Board (SASB), the UN Global Conduct Principles, the OECD Guidelines for Multinational Enterprises, and ISO 26000.33 The rise of corporate social motivation suggests a shift from substantive corporate law towards a decentered and reflexive network of diverse corporate social

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29. See generally Jacob E. Gersen & Eric A. Posner, Soft Law: Lessons from Congressional Practice, 61 STAN. L. REV. 571, 579 (2008) (explaining that the term “soft law” usually refers to “a rule issued by a lawmaking authority that does not comply with . . . formalities . . . that are necessary for the rule to be legally binding”).


31. See generally Strine, supra note 2 (explaining that the protection of non-investor constituencies within corporation law itself is not currently available under Delaware law, with the one exception of the benefit corporation, while other constituencies are protected through externality regulations).

32. See generally Cafaggi & Pistor, supra note 4 (discussing the theory of self-determined norms and regulatory capabilities).

identities, governed by soft global standardization.\textsuperscript{34}

The normative quest makes corporate performance vague and subject to manipulation.\textsuperscript{35} Law can be specific, whereas morality is ultimately vague, leaving room for self-interested interpretation.\textsuperscript{36} The rise of corporate social identities is thus the rise of what Katharina Pistor calls “Corporate Legal Particularism,” a self-contained legal order that serves particular interests.\textsuperscript{37} Corporate social identities do not necessarily align with social normative preferences. In particular, distributional preferences of corporate leadership do not necessarily align with those channeled through the tax system according to social interest,\textsuperscript{38} as demonstrated by the Corporate Social Responsibility (CSR) Tax straddle. Indeed, social norms and corporate social identities may serve as normative substitutes. The rise of corporate social identities may thus pose a challenge to the democratic ideal.

I. **STRATEGIC ANALYSIS OF CORPORATE SOCIAL MOTIVATION**

Why do corporations engage in social causes? What drives corporate normative social conduct? This part of the article provides a taxonomy of corporate incentives to engage in normative agendas, suggesting that corporate social identities emerge to cater the demand for social agendas introduced by corporate stakeholder constituencies: investors, employees, and consumers, as well as by the management’s private values and idiosyncratic visions.\textsuperscript{39} Finally, normative corporate social conduct may serve as a political strategy promoting the corporation’s core business missions.

\textsuperscript{34} See, e.g., id.


\textsuperscript{37} Katharina Pistor, Corporate Legal Particularism (June 17, 2016) (unpublished paper for “Forms of Pluralism and Democratic Constitutionalism” conference in Paris) (on file with author).

\textsuperscript{38} Bhattacharya, Smith, & Vogel, supra note 9; Bhattacharya, Hildebrand, & Sankar, supra note 9; Glazer et al., supra note 9; Klein et al., supra note 9.

A. Management Values: Idiosyncratic Visions and Agency Costs

When corporations engage in social values, managerial leadership gets the privilege of directing corporate social contribution towards its own normative goals and visions. Managers and controlling shareholders have the prerogative to pursue their subjective values and normative preferences as part of their idiosyncratic visions for the corporation. Idiosyncratic visions do not have to concern an innovation or invention: as long as the corporate leadership, management, controlling shareholders or entrepreneurs have a plan they subjectively believe would lead the corporation to merit, they have an idiosyncratic vision for corporate leadership. The identity of the beneficiaries of corporate social agendas may naturally be affected by management’s private interests and values, as embedded in the corporate leadership.

Several researchers argue that corporate social conduct is a manifestation of managerial agency problems inside the firm, enhancing management’s value at the expense of shareholders. Researchers found empirical support for three key indicators of an agency motive for corporate social conduct. First, increasing insider ownership decreases measures of firm goodness. Firms with moderate levels of insider ownership cut goodness by more than firms with low levels (where the tax cut has no effect) and high levels (where agency is less of an issue). Second, improved governance reduces corporate goodness. A regression discontinuity design of close votes around the fifty percent cut-off finds that passage of shareholder governance proposals leads to slower growth in goodness. Third, the use of corporate jets is correlated with corporate


42. See Krüger, supra note 25, at 5-6 (discussing the effects of corporate social responsibility on the stock market). See also Bénabou & Tirole, supra note 28, at 1-19 (providing a commentary on agency issues relating to CSR); Ing-Haw Cheng, Harrison Hong & Kelly Shue, Do Managers Do Good with Other People’s Money? 1-2 (Fama-Miller Working Paper, 2014), http://ssrn.com/abstract=1962120 [https://perma.cc/QH6D-CGCA] (discussing similar agency motives relating to corporate social responsibility).

43. Id.

44. Cheng, Hong & Shue, supra note 42, at 2-4.

45. Id.

46. Id.
goodness.\textsuperscript{47} Other research indicates that as giving increases, shareholders reduce their valuation of cash holdings, suggesting corporate giving is a manifestation of agency conflicts that reduce firm value.\textsuperscript{48} Further, dividend increases are also associated with reduced corporate giving.\textsuperscript{49} Corporate giving is typically associated with CEO charity preferences, indicating that firm donations advance CEO interests and studies suggest that the misuse of corporate resources reduces firm value.\textsuperscript{50}

B. Impact and Responsible Investments

“Investors follow their conscience,” says a \textit{Wall Street Journal} headline from July 2015,\textsuperscript{51} referring to moral trends of investments, actively seeking to boost investors’ portfolios with virtuous corporations. This “can encompass everything from boosting worker retention through fair pay and good working conditions to preserving natural resources and having a minimal impact on the environment.”\textsuperscript{52} Indeed, investors pay increasing attention to non-financial social corporate performance and sustainability matters.\textsuperscript{53} Asset managers seeking to promote moral values are now so common that research firms dedicated to social and moral assessment provide resources for “environmental, social and governance (ESG) research.”\textsuperscript{54} According to the research firm Morningstar, as of 30

\textsuperscript{47} Id.
\textsuperscript{49} Id.
\textsuperscript{50} Id. at 2.
\textsuperscript{51} Prior, supra note 6.
\textsuperscript{52} Id.
\textsuperscript{53} See generally Sarah Dadush, \textit{Regulating Social Finance: Can Social Stock Exchanges Meet the Challenge?}, 37 U. PA. J. INT’L L. 139, 139-230 (2015) (discussing the merits of investing in enterprises that cater to poor and underserved populations); CENTER FOR POLITICAL ACCOUNTABILITY & ZICKLIN CENTER FOR BUSINESS ETHICS AT THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA, THE 2015 CPA-ZICKLIN INDEX OF CORPORATE POLITICAL DISCLOSURE AND ACCOUNTABILITY 8 (2015) (finding that increasingly large numbers of corporations have chosen to disclose their political spending for the sake of ethical transparency); GOVERNANCE & ACCOUNTABILITY INSTITUTE, INC., SUSTAINABILITY — WHAT MATTERS? 3 (2014) (stating similar findings); KPMG LLP, CURRENTS OF CHANGE: THE KPMG SURVEY OF CORPORATE RESPONSIBILITY REPORTING 2015 28-30 (2015) (showing that an increasingly large portion of companies are choosing to engage in corporate responsibility reporting).
\textsuperscript{54} About Us, EIRIS, http://www.eiris.org/about-us/ [https://perma.cc/T7DB-M6W3] (last visited Jan. 30, 2017) (identifying itself as a “leading global provider of environmental, social and governance (ESG) research, empowering responsible investors with independent
June 2015, investors have poured nearly $8.2 billion into socially minded stock and bond funds since 2013. Total assets in such funds have grown roughly 59% over the past five years, to $72.6 billion, while assets in all mutual funds have risen 52% to $12.5 trillion. Here is an illustration of assets flowing to mutual funds with a socially responsible mandate in recent years:

![Illustration 1: Assets Flowing into Mutual Funds with a Socially Responsible Mandate](image)

Socially responsible investments are generally motivated by normative considerations, yet some empirical evidence suggests that they have supplemental economic merit. To list a few examples: a higher CSR score is on average associated with lower idiosyncratic risk, a lower probability of financial distress, lower cost of capital, more positive sell-

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55. Id.
56. Id.
57. Prior, supra note 6.
58. See generally Azgad-Tromer, supra note 15 (providing an analysis of institutional investors as agents of the general public and the costs accompanying this agency).
61. Dan S. Dhaliwal et al., Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting, 86 ACCT. REV. 59, 60 (2011); Sadok El Ghoul et al., Does Corporate Social Responsibility Affect The Cost of
side analysts’ recommendations, and higher abnormal returns and long-term post-acquisition returns. Ferrell, Liang, and Renneboog find that corporate social responsibility is associated with managerial pay-for-performance and maximization of firm value. Eccles, Ioannou, and Serafeim show that companies voluntarily adopting environmental and social policies, outperform their counterparts over the long term, in terms of both stock market and accounting performance. The outperformance is stronger in sectors where the customers are retail consumers. Cheng, Ioannou, and Serafeim show that firms with better corporate social responsibility performance face significantly lower capital constraints.

Other scholars have shown that socially responsible firms are likely to deliver more transparent and reliable financial information to investors, as compared to firms that do not meet the same social criteria and are less likely to manage earnings through discretionary accruals, to manipulate real operating activities, and to be the subject of SEC investigations. Raj Sisodia, David Wolfe, and Jagdish Sheth have selected firms on the basis of their humanistic profiles, including their sense of purpose; how well they are loved by customers, team members, suppliers, and communities; and their culture and their leadership. They find that those humanistic firms outperformed their market on a nearly nine-to-one ratio over a period of ten years.

Further research by Sisodia et al. reveals that the same companies

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64. Higher CSR is closely related to tighter cash, a proxy for better-disciplined managerial practice, and higher pay-for-performance sensitivity. Allen Ferrell et al., *Socially Responsible Firms* 3-4, 31 (European Corporate Governance Institute, Working Paper No. 432/2014, 2016).


66. *Id.* at 2838.


69. **Raj Sisodia et al.,** *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose* 14 (Jeanne Glasser Levine et al. eds., 2nd ed. 2007).
outperform the S&P 500 by a factor of 10.5 over a period of fifteen years from 1996 to 2011. Ethisphore has produced an annual list of the world’s most ethical companies, assessed in terms of corporate citizenship and responsibility, corporate governance, innovation that contributes to well-being, industry leadership, executive leadership, regulatory and reputation track record, and internal systems of ethics or compliance programs. The selected companies outperformed the S&P 500 “every year since the inception of the program in 2007, by an average of 7.3 percent annually.”

Charity is also associated with corporate performance. Lev, Petrovits, and Radhakrishnan find that charitable contributions are significantly associated with future revenue, a result particularly pronounced for firms that are highly sensitive to consumer perception, where individual retail consumers are the predominant customers. As the following illustrations demonstrate, corporate social giving is correlated with better performance, higher growth rates, and increased revenue.

![Illustration 2: Financial Performance and Corporate Giving](image)

71. Id. at KINDLE location 4708.
72. Id.
ILLUSTRATION 3: REVENUE FROM SUSTAINABLE PRODUCTS AND SERVICES  

C. Employee Engagement

Corporate social identities may give corporations leverage in connecting, recruiting, and motivating employees’ performance. Studies have shown that more than seventy percent of employed Americans deciding between two jobs offering the same location, job description, pay, and benefits would choose to work for a company that also supports charitable causes. For high-value employees, cash is no longer king, and there are numerous other emotions corporations need to address in recruiting employees and engaging them in the corporate mission. To connect and engage employees, companies need to engage their human identities and address their values. Field studies show that employees involved in philanthropic initiatives showed a statistically significant increase in their sense of identification with their respective corporate employers, an increase also correlated with improved job performance.

75. Id. at 8.
76. Marquis et al., supra note 7.
78. Marquis et al., supra note 7, at 2 (citing John Charlton, Blue-Chip Companies Seek Non-Cash Rewards, Personnel Today (Nov. 5, 2009), http://www.personneltoday.com/hr/blue-chip-companies-seek-non-cash-rewards/).
79. Googins, supra note 26, at 149.
80. David A. Jones, Does Serving the Community Also Serve the Company? Using Organizational Identification and Social Exchange Theories to Understand Employee
Employees with a positive view of their organization’s corporate social responsibility commitment also rate senior management as having high integrity.\textsuperscript{81} Ethisphere’s selected companies have been found to enjoy lower team member turnover.\textsuperscript{82}

Corporate social responsibility often engages employees as the beneficiaries of accountability, committing to “a great place to work,” diversity, professional training and development, and wellness and benefits. Significantly, corporate social responsibility engages employees in contributing to other stakeholder constituencies: for example, better customer service, as well participation in the corporation’s social agenda.\textsuperscript{83} Because employees search for meaning and values, a framework for corporate social identity may be part of the moral “employee value proposition” retaining individuals to the corporation and urging them to stay longer and give their personal best.\textsuperscript{84}

Engaging employees is a significant priority for corporations. Corporate America struggles with making its employees fully engaged and committed to its business, as the following illustration shows:

\begin{itemize}
  \item [Engaged]
  \item [Not engaged]
  \item [Actively disengaged]
\end{itemize}

\textbf{ILLUSTRATION 4: 2014 EMPLOYEE ENGAGEMENT IN THE U.S.}\textsuperscript{85}

\textit{Responses to a Volunteerism Programme, 83 J. OCCUPATIONAL & ORG. PSYCHOL. 857, 858-61 (2010).}

81. Marquis et al., supra note 7, at 3.
82. Mackey & Sisodia, supra note 70, at KINDLE location 4708.
83. \textit{See, e.g., CAESARS ENTERTAINMENT, INSPIRING CITIZENSHIP: CORPORATE CITIZENSHIP REPORT 2014-2015} 43, 76 (2014-2015) (referring to employee engagement both when employees are the beneficiaries and when other constituencies are the beneficiaries; for example, rewards for customer service, which benefit both customers and shareholders, and volunteering in the community, which benefits the public).
2017] THE VIRTUOUS CORPORATION 357

Corporate social identities are particularly appealing to the younger workforce of Generation Y. Nearly seven of ten millennials say they are aware of their employer’s commitment to social and environmental causes, and sixty-five percent say that their employer’s social and environmental activities “make them feel loyal to the company.” A study at Stanford Business School suggests that corporate social responsibility can provide incentives that are potentially more alluring than monetary compensation: more than 90% of the MBAs in the study sample were willing to make a financial sacrifice and forgo financial benefits in order to work for a firm with a better reputation for corporate social responsibility and ethics.

D. Marketing and Customer Relations

Corporations may engage in corporate social conduct as a signal for the company’s virtuous social identity, aiming consumers to attribute virtue to their brands. Bhattacharya and Sen refer to “consumer-company identification” (CCI) as an extension of social identity theory. Consuming the moral brand of a virtuous corporation may contribute to


consumers’ self-esteem, attaching consumers to the firm and enhancing its brand value.\(^9\) Corporate social conduct has the potential to create value for consumers, and it is the customer perception of this value that mediates the relationship between corporate social conduct and subsequent financial performance.\(^9\) Ethisphere’s list of most-ethical corporations has been found to enjoy better brand reputation and higher customer loyalty.\(^9\) Cabral suggests there is a positive relationship between trust and the price customers are willing to pay for a product or service—the higher the trust, the more customers are willing to pay.\(^9\) In addition, the more consistent the transactions that take place between a seller and a buyer, the harder it is to break any trust previously built between them (whether good or bad).\(^9\) Cabral’s theory suggests there is a negative relationship between reputation and the amount of money the corporation must invest in improving their reputation. As reputation increases, corporate leaders can invest incrementally less in building their reputation without hurting the progress they’ve made.\(^9\) High trust and reputation can together help corporations earn higher profits.\(^9\) A corporation can not only increase the price of its products and services, it can also decrease its expenses (the amount of money invested in reputation management).\(^9\)

Consumers affect corporate morality with a stick, and not only a carrot. Firms deviating from accepted social and moral norms risk decline in sales due to consumer boycotts. To list just a few recent examples, Nestlé suffered a consumer boycott after selling inappropriate milk to pregnant mothers in developing countries;\(^9\) Nike was boycotted over alleged sweatshop conditions at Asian suppliers;\(^9\) Shell suffered a boycott

\(^9\) Bhattacharya et al., supra note 27; Bhattacharya & Sen, supra note 27, at 15-17.

\(^9\) For analysis of customer values of Corporate Social Responsibility, see generally Peloza & Shang, supra note 27 (explaining the value that corporate social responsibility activities can create for customers and practical recommendations for creating corporate social responsibility programs).

\(^9\) Mackey & Sisodia, supra note 70, at KINDLE location 4708.

\(^9\) Luis M B Cabral, The Economics of Trust and Reputation: A Primer 26 (June 2005) (unpublished manuscript), http://pages.stern.nyu.edu/~lcabral/reputation/Reputation_June05.pdf [https://perma.cc/DUF6-6FVC].

\(^9\) Id. at 7-8.

\(^9\) Id. at 20.

\(^9\) Id. at 14-19.

\(^9\) Id.


\(^9\) Simon Birch, How Activism Forced Nike to Change Its Ethical Game, THE GUARDIAN (July 6, 2012), https://www.theguardian.com/environment/green-living-
because of its plan to sink the Brent Spar oil platform at sea.\textsuperscript{101} The more egregiously a consumer perceives the firm’s behavior, the more likely she is to boycott.\textsuperscript{102} Boycotts thus serve a mechanism by which consumers can hold firms accountable to perceived transgressions of corporate normativity.\textsuperscript{103}

E. Political Strategy

Corporations do not act in a political vacuum. Corporate social conduct could be a means of placating regulators and public opinion to avoid strict supervision in the future, or of attempting to raise rivals’ costs by encouraging environmental, labor, or safety regulations that will particularly handicap competitors.\textsuperscript{104} Organizational resources devoted to corporate social conduct are aligned with the corporate business mission so as to create a positive, virtuous public image of the corporation and thereby leverage the corporation’s agendas with regulators and public officials.\textsuperscript{105}

II. CENTRAL POLICY CHALLENGES

This part of the article provides a roadmap for some of the central policy challenges of the emerging corporate social identities. Contemporary corporations have become norm-generating agents, creating non-binding rules for social activity and normative impact.\textsuperscript{106} The rise of corporate social motivation suggests a shift from substantive corporate law towards a decentered and reflexive network of diverse corporate social identities, governed by soft global standardization.\textsuperscript{107} The normative quest makes

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\textsuperscript{102} Klein et al., supra note 9, at 93-96.

\textsuperscript{103} N. Craig Smith, \textit{Corporate Social Responsibility: Whether or How?}, 45 CAL. MGMT. REV. 52, 60-61 (2003).

\textsuperscript{104} Baron, supra note 28, at 12-13.

\textsuperscript{105} Bénabou & Tirole, supra note 28, at 12.

\textsuperscript{106} Arato, supra note 30, at 231-232.

\textsuperscript{107} The term “soft law” usually refers to “a rule issued by a lawmaking authority that does not comply with . . . formalities . . . that are necessary for the rule to be legally binding.” Gersen & Posner, supra note 29. Examples include, but are not limited to, SASB, supra note 33; UNITED NATIONS, supra note 33 (offering a principled approach for corporate fundamental responsibilities in the areas of human rights, labor, environment, and anti-corruption); ISO, supra note 33; GLOBAL REPORTING INITIATIVE, G4 SUSTAINABILITY REPORTING GUIDELINES, REPORTING PRINCIPLES, AND STANDARD DISCLOSURES, available at \url{https://www.globalreporting.org/}
corporate performance vague and subject to manipulation. Ultimately, we need to ask: whose values does the corporation pursue? Corporate social identities do not necessarily align with social normative preferences. Social norms and corporate social identities may serve as normative substitutes.

A. Soft Corporate Governance

The quest for virtue shifts corporations from passive to active roles, where corporations become a norm-generating authority defining their social identities and functions through a local organizational process. The resulting reflexive network of corporate social identities is proliferated by soft global standardization, setting normative and reporting guidelines for corporate social conduct, such as the Global Reporting Initiative (GRI), SASB, the UN Global Conduct Principles, the OECD Guidelines for Multinational Enterprises, and ISO 26000.

While traditional corporate governance creates mandatory incentives and deals with the mitigation of agency costs with a mission to enhance shareholder value, contemporary corporations adopt a soft, aspirational, and voluntary norm-generating process to identify and promote their corporate social identities. From the traditional financial realm of corporations, contemporary corporations proceed to diverse social, environmental, and economic agendas, reaching far beyond the

108. Solomon, supra note 35.
109. For articles analyzing this, see generally Bhattacharya, Smith, & Vogel, supra note 9; Bhattacharya, Hildebrand, & Sankar, supra note 9; Glazer et al., supra note 9; Klein et al., supra note 9.
111. Geczy et al., supra note 2, at 79.
113. See GLOBAL REPORTING INITIATIVE, supra note 14 (explaining that stakeholder dialogue is the recommended process for identification of material issues for disclosure under the G4).
114. For examples of corporate disclosures of activities and agendas in environmental, social, and economic realms see supra note 1 (showing various American companies that
organizational boundaries and often aiming for global social impact.115

The term “soft” corporate governance thus seeks to describe the emerging rules of conduct established and enforced within the corporate realm in the absence of directives of hard-binding mandatory corporate law.116 Contemporary corporate governance is soft because its norm-generating authority is the corporation itself, induced by non-binding global standardization.117 Jerry Mashaw defines soft law as consisting of “social accountability regimes” that are “continuously revisable.”118 In contemporary corporate governance, corporations voluntarily assume social accountability in a continuously revisable process aiming to define their social identities, and to promote their social agendas and regimes of voluntary normativity, proliferating their financial purposes and notwithstanding them.

As the corporate social identity is unique to each and every corporation, the process of defining agendas for corporate social conduct and clarifying corporate social motivation is internal at the local corporate level.119 The corporation defines for itself its social agendas, sets its normative involvement, and chooses its beneficiaries.120 Far from the top-down hierarchy of traditional corporate governance, contemporary corporations assume an internal decision-making process, to define the material contents of the corporation’s non-financial performance.121 The corporation’s norm generating role is a decentered process, where stakeholders participate in a dynamic and systemic integration of values into a voluntary, self-determined corporate social identity.122

115. See generally Part II infra (providing a discussion of corporate social motivation beyond organizational boundaries and describing the policy issues relating to corporations’ new role in social responsibility).
116. Lobel, supra note 110, at 388.
117. See generally Gersen & Posner, supra note 29 (discussing the importance of soft law, specifically congressional law).
120. See generally Cafaggi & Pistor, supra note 4 (outlining a theoretical discussion of regulatory capabilities).
122. GRI, for example, recommends a stakeholder dialogue to determine the relative materiality of specific sustainability issues. See Ursa Golob & Klement Podnar, Critical
The self-determined vision of corporate goodness is thus the result of a local decision making process of the corporation, induced and proliferated by soft global standardization.\textsuperscript{123} Corporations do not define their social identities in a vacuum: normative agendas for corporations are suggested and promoted by several global initiatives, including the UN Global Conduct Principles,\textsuperscript{124} the OECD Guidelines for Multinational Enterprises,\textsuperscript{125} and ISO 26000.\textsuperscript{126} Visions of corporate normativity are then disclosed under global standards for corporate social transparency, such as the Global Reporting Initiative (GRI)\textsuperscript{127} and SASB.\textsuperscript{128} The outcome is a social network of corporate visions of goodness, where corporations are further influenced to virtuous social conduct by corporate peers and by industry standards.\textsuperscript{129}


124. See \textit{UNITED NATIONS}, supra note 33 (outlining that “[t]he UN Global Compact’s Ten Principles are derived from: the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption”).

125. See \textit{OECD}, supra note 33 (highlighting that OECD guidelines are divided by industry sectors).

126. See \textit{INTERNATIONAL ORGANIZATION FOR STANDARDIZATION}, supra note 33 (providing another method by which normative agendas might be defined).

127. See \textit{GLOBAL REPORTING INITIATIVE}, supra note 14 (outlining current sustainability reporting guidelines).

128. See \textit{SASB}, supra note 33 (laying out US sustainability disclosure standards).

129. See generally Noah E. Friedkin, \textit{A STRUCTURAL THEORY OF SOCIAL INFLUENCE} (Mark Granovetter ed., 1998) (focusing on the process of social influence, and on how this process, when it is played out in a network of interpersonal influence, may result in interpersonal agreements among actors who are located in different parts of a complexly differentiated organization. This theory may be applied to the network of different corporations in the corporate race to virtue and social identity).
### Table 1: From Traditional to Soft Corporate Governance

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<tr>
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<th>Traditional</th>
<th>Soft</th>
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<tr>
<td><strong>NATURE</strong></td>
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<td>Decentered</td>
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<td>Substantive</td>
<td>Reflexive</td>
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<td></td>
<td>Centralized</td>
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<td></td>
<td>Command-and Control</td>
<td>Contextualized</td>
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<tr>
<td><strong>CONTENT</strong></td>
<td>Financial</td>
<td>Social, Environmental,</td>
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<tr>
<td></td>
<td></td>
<td>Economic</td>
</tr>
<tr>
<td><strong>NORM GENERATING AUTHORITY</strong></td>
<td>State</td>
<td>Corporation, induced by Global soft standardization</td>
</tr>
<tr>
<td><strong>INSTITUTIONAL ORGANIZATION</strong></td>
<td>Top-down Hierarchy</td>
<td>Stakeholder Dialogue</td>
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<td>Informal</td>
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<td>Corporate Decision</td>
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<td>Making Process</td>
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<td><strong>MOTIVATOR FOR PRIVATE ACTION</strong></td>
<td>Liability</td>
<td>Reputation</td>
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<td>Public Image</td>
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<td>Stakeholder Relations</td>
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<tr>
<td><strong>OUTREACH</strong></td>
<td>Within Organizational Boundaries</td>
<td>Beyond Organizational</td>
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<td></td>
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<td>Boundaries</td>
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<tr>
<td><strong>POWER</strong></td>
<td>Hard</td>
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<td></td>
<td>Coercive</td>
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<td>Mandatory</td>
<td>Voluntary</td>
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<tr>
<td><strong>CONCEPTUAL FRAMEWORK</strong></td>
<td>Mitigate Agency Costs</td>
<td>Promote Corporate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social Identity</td>
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#### B. Corporate Social Motivation and Law

Understanding the strategic incentives for corporate social motivation may serve to create a better architecture of corporate law, focusing on variances of corporate conduct that are less likely to be addressed and are significantly valuable for social welfare, as demonstrated by illustration 5.
The illustration offers a metric for the evaluation of corporate social conduct. When a corporation engages in peripheral social activity (as demonstrated by sections A and D), assessment of its corporate social profile in light of the general value for social welfare is required. Examples for such activities are meager budgets dedicated for social activities with a high publicity profile, but low social impact. Finally, when a corporation has sufficient strategic incentives to voluntarily engage in social conduct that has significant social value, as demonstrated by section B in illustration 5, the corporation fulfills a vision for social corporate leadership, supplementing or substituting public governance.

ILLUSTRATION 5: THE METRICS OF CORPORATE VIRTUE

130. Consider negative externalities as an example for section C. While the corporation has meager incentives for virtuous conduct, society attributes considerable value to the issue at hand and carries its full costs when corporate virtue fails to materialize.

131. Consider each dot as an instance of corporate social conduct. This schematic table should be applied at the specific corporate level, as every corporation would have a different profile of social activity and impact.

C. Distributional Consequences: Corporate Legal Particularism and the CSR Tax Straddle

When corporations engage in social agendas, their leadership—including controlling shareholders and managers—acquires the prerogative to sit behind the corporate social wheel. Legal rules can specify the desired contents, scope, and beneficiaries for corporate social conduct at a highly detailed level. By contrast, corporate social identities cannot be too detailed and nuanced: because it is incentivized by various stakeholders, and highly dependent on public opinion, corporate social identities must be easy for the general public to note and identify, and must be kept simple, leaving the management room for interpretation. The potential for such self-interested interpretation by managers defeats the purpose of curbing private advantage.

The vagueness of virtue allows for self-interested interpretation. Because moral rules are so elusive, the interpretation given to them may differ among various constituencies and may lead to aversion. Lack of specific legal standards can be misused. Consider for example the recent scandal of Volkswagen in late 2015: from the top of the list of car firms in the Dow Jones Sustainability Index, it was caught using sophisticated software to avoid compliance with environmental regulation. Indeed, morality is often disappointing. "If I had a yaller dog that didn’t know no more than a person’s conscience does, I would pisson him" declares Huckleberry Finn towards the end of his journey down the Mississippi.

133. See Part II A supra (providing an analysis and review of empirical evidence of agency costs in corporate social responsibility).
134. Shavell, supra note 36, at 233-34.
135. Id. at 234.
136. Id.
137. Id.
139. MARK TWAIN, THE ADVENTURES OF HUCKLEBERRY FINN 161-162, 175 (Dover Publications, Inc. 1994) (stating that Huck’s conscience tells him that “the right thing and the clean thing” is to return his friend Jim to his legal owner, Miss Watson, and that otherwise he will be doomed to hell. His inner voice, on the other hand, reminds him that Jim is his best friend, and it is better to be in hell with friends than to be saved from it with Miss Watson. Huck decides to be true to himself, and follow his inner self-voice. “All right, then, I’ll go to hell,” he states: “I would take up wickedness again.”).
having realized that human conscience can sometimes justify the cruelty and injustice of slavery. Virtuous corporations require delegation of authority to determine the normative contents of compliance and such delegation can be misinterpreted and misused.\textsuperscript{140}

Indeed, the nature and content of corporate social identities is decided and framed by the corporation for itself. When corporations pursue values, an immediate and pertinent concern is whose values are pursued and in service of what interests. Katharina Pistor warns of “corporate legal particularism,” referring to a self-contained legal order that serves special interests.\textsuperscript{141} Like beauty, normative agendas are ultimately in the eye of the beholder. Attitudes on what is socially responsible are “rather unscientific . . . and based on little information . . . framing is bound to distort assessments: the choice of presenting a firm’s rationale for locating a plant in a low-labour-cost country as ‘helping a poor country to develop’ or ‘minimizing labour cost’ is obviously not neutral.”\textsuperscript{142} Thus, reports of corporate social responsibility vary in content, and they frequently refer to the corporation’s core business. For example, the training and development of employees is often considered a manifestation of corporate social responsibility and included in social responsibility reports, despite its obvious contribution to the core business mission of the corporation.\textsuperscript{143} Corporate social identities may differ from each other quite extensively, and there may be fundamental disagreements within a corporation about what is the morally right way to behave.

Corporate social identities create a distributional tension, because the social priorities of the corporation may differ from those of the public. As the CSR tax straddle demonstrates, corporations may choose to engage in voluntary corporate social conduct while making strenuous efforts to minimize and even avoid paying tax.\textsuperscript{144} Consider for example Pfizer, “embracing . . . responsibility to society . . . helping the world’s poor gain access to its products,” and “strengthen[ing] and improv[ing] health-care

\textsuperscript{140.} \textit{See generally} Shavell, \textit{supra} note 36; Solomon, \textit{supra} note 35 (both discussing law and morality).

\textsuperscript{141.} Pistor, \textit{supra} note 37.

\textsuperscript{142.} Bénabou & Tirole, \textit{supra} note 28, at 15 (discussing socially responsible behavior as a means to further societal goals); \textit{id.} at 19.

\textsuperscript{143.} \textit{See, e.g.}, \textit{CSR Report} 2016, \textit{SONY} 122-135 (2016), \url{http://www.sony.net/SonyInfo/csr_report/} [https://perma.cc/2REP-3G4Z] (describing Sony’s recruiting and training of employees as corporate social responsibility).

While planning to shift its tax domicile from America to Ireland, where corporate income taxes are considerably lower, another example is Etsy, a handmade good marketplace that went public in the U.S. in 2015 as a certified B Corporation and simultaneously reorganized its Irish subsidiary in a way that conceals its tax-cutting arrangements from public view. Recent empirical research finds evidence that corporate social responsibility is negatively related to five-year cash-effective tax rates and positively related to tax lobbying expenditures, suggesting that, on average, corporate social responsibility and tax payments act as normative substitutes. Companies pursue their own values in their self-determined normative social identities where the corporation has a self-determined authority to specify the beneficiaries, the methods of engagement, and the amount of resources devoted to its self-determined social causes. Corporate social identities may thus pose a normative substitute for the tax system for social redistribution, and may challenge the democratic ideal.

CONCLUSION

With the popularity of Benefit Corporations and the rising trend of corporate social initiatives by traditional C Corporations, the vision of corporations actively generating their own norms of social conduct in pursuit of their self-determined set of values is emerging as a prominent model of corporate social conduct. This article analyzed the emerging trend of “Corporate Social Identities,” arguing that incentives for corporate social motivation are often rooted in the business purpose itself. Corporations are induced to normative social conduct by their stakeholder constituencies: investors follow their conscience in responsible investments; employees are better engaged, more productive and are easier to recruit by ethical corporate employers; and consumers attribute virtue to systems.\textsuperscript{145} While planning to shift its tax domicile from America to Ireland, where corporate income taxes are considerably lower.\textsuperscript{146} Another example is Etsy, a handmade good marketplace that went public in the U.S. in 2015 as a certified B Corporation and simultaneously reorganized its Irish subsidiary in a way that conceals its tax-cutting arrangements from public view.\textsuperscript{147} Recent empirical research finds evidence that corporate social responsibility is negatively related to five-year cash-effective tax rates and positively related to tax lobbying expenditures, suggesting that, on average, corporate social responsibility and tax payments act as normative substitutes.\textsuperscript{148} Companies pursue their own values in their self-determined normative social identities where the corporation has a self-determined authority to specify the beneficiaries, the methods of engagement, and the amount of resources devoted to its self-determined social causes. Corporate social identities may thus pose a normative substitute for the tax system for social redistribution, and may challenge the democratic ideal.

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\textsuperscript{148} Angela K. Davis et al., Do Socially Responsible Firms Pay More Taxes?, 91 ACCOUNTING REV. 47 (2016).
moral brands, and might sanction the transgression of social norms by consumer boycotts. Management’s private values induce the corporation to social engagement. In addition, corporate social activity may serve a political strategy, manipulating desired regulation or lack thereof. Understanding the strategic incentives for corporate social motivation may serve to create a better architecture of corporate law. When the strategic incentives for corporate social conduct are high, and the social value of corporate social conduct significant, the corporation may fulfill the vision for social leadership supplementing or substituting public governance. Law is most needed when the incentives for corporate social conduct are insufficient, but the social value significant.

In particular, the analysis of corporate social motivation may lead to full modeling of corporate social engagement, subject to empirical evaluation. Future attention should be paid to how global and domestic mechanisms may play a role in creating incentives diverting corporate social motivation towards fulfilling significant social value in alignment with social interests.