ABSTRACT

Corporate Virtue Signaling: The Devolution of Virtue into Signaling

Katherine Walton

Director: Dr. Michael Stegemoller

This paper examines the complex phenomena of corporate virtue signaling, tracing it through the roots of Aristotelian virtue and evolution during the growth of utility theory, increased focus on economic wealth, and conflicting views on the purpose of a corporation. As virtue signaling becomes a staple in corporate publicity, the phenomenon warrants examination of if it is truly virtuous, aligns with corporate objectives, and fosters social benefits. Corporate virtue signaling lacks essential requirements of true virtue, but on a case-by-case basis signaling can provide, or fail to provide, useful benefits to corporations and society. While a consistent and intentional corporate signaling strategy is most likely to be successful, the private and public gains associated with corporate virtue signaling are not guaranteed. Signaling is a double-edged sword able to harm both companies and the public through poorly executed campaigns. The increased focus on stakeholder objectives may point to stakeholder theory itself being a virtue signal that can insulate executives from claims of mismanagement, increasing their ability to serve themselves rather than stakeholders and shareholders. Additionally, the analysis of virtue compared to the corporate signaling trend prompts the consideration of what people can and should expect from corporations.

APPROVED BY DIRECTOR OF HONORS THESIS:

____

Dr. Michael Stegemoller, Department of Finance

APPROVED BY THE HONORS PROGRAM:

____

Dr. Elizabeth Corey, Director

DATE: ________________________

CORPORATE VIRTUE SIGNALING:

THE DEVOLUTION OF VIRTUE INTO SIGNALING

A Thesis Submitted to the Faculty of

Baylor University

In Partial Fulfillment of the Requirements for the

Honors Program

By

Katherine Walton

Waco, Texas

May 2022

TABLE OF CONTENTS

CHAPTER ONE

Introduction

Context

“Virtue" is often discussed as if it were interchangeable with “values” or other vague yet repeatedly asserted standards of moral decency. This is seen on personal and corporate levels. This paper will examine the phenomena of corporate virtue signaling. While value statements can sound great when touted by the company, it begs public consideration of what lies behind the words. A company is notably not an individual, so its ability to have and act on morals requires examination. Likewise, the methods and consequences of corporate virtue signaling will be discussed to uncover insights on the phenomena.

In the Summer of 2020, world events prompted a slew of corporate virtue signaling. It is notable that the global pandemic of COVID-19 led to many US city lockdowns, took many lives, and was at the forefront of media attention. In the midst, there were also several Black Lives Matter protests arising from demands for social justice and racial equality. Beyond individual grandstanding, corporate declarations of solidarity and social commitment followed. The corporate advertisements and social media posts became a competition for who was most mindful of the pandemic and who was most sincerely vocal for specific, well-publicized social causes. Some people praised corporate activism, others shunned it, and many were skeptical. The sheer volume of this media made many Americans question the sincerity of the companies’ intentions.

There has been a shift in the expectations of a company's social-political involvement in recent years. There is not only increased signaling activity but also competition between the companies. Berthon explains this as,

> Signaling how virtuous a brand is has become an ever more common strategy. Brands have recently outcompeted one another to align themselves with various causes. (Berthon et al.)

The assertion that signaling has grown in popularity and may continue to increase in frequency going forward prompts an analysis of the phenomena.

The expectations society has regarding corporate virtue signaling also warrants examination. How people expect companies to behave can play a role in how the company acts in regard to satisfying consumers. In recent years, the public has demanded companies act with social responsibility. Scholars have asserted that,

> Public opinion of the roles of companies in society has shifted dramatically in recent decades. Producing high-quality goods and services is no longer enough. Constituents expect corporations to address environmental and social problems linked to whatever they sell and however they conduct business. (Steenkamp)

Constituents are expecting companies to play an active role in social issues and signal their commitment. The question of how, if at all, virtue signaling should be encouraged is open for debate. Many who push for more corporate involvement are unaware of the corporate incentives at play or whether the signals arise from a genuine commitment, a profit maximization objective, or both. Regardless of the underlying cause, the utility these signals provide to corporations and society will be analyzed to determine if they substantially benefit any of the parties involved.

Paper Purpose

This paper traces the American perspective of virtue and how the common understanding of this once well-understood word has morphed alongside society and amalgamated into corporate virtue signaling. First, I will define virtue through *Nicomachean Ethics*, then trace the development of a new approach to virtue and society's framework for understanding it through influential literature and commentary including *The Wealth of Nations*, *Democracy in America*, and *The Protestant Ethic and the "Spirit" of Capitalism*. These works display how the American mindset and capitalistic perspective developed, beginning with some European influences, and shifted the understanding of virtue into its usefulness as a signal in an external monetary pursuit. *The Bible* will contribute to the analysis of how the understanding of virtue has devolved is closely tied to what society views as ends and, in particular, where true wealth is sought. This American moral confusion and external obsession beg the consideration of how people should approach corporate virtue signaling.

I will outline how this current trend of corporate virtue signaling can be interpreted in the various corporate responsibility frameworks to show that, while corporate signaling can be useful in some situations, it is not traditionally virtuous. Large, for-profit corporations will be the primary subject of analysis in this endeavor. Support will be drawn from various articles discussing companies' signaling activity and how the phenomena has evolved. In addition to analyzing the alignment of corporate actions with the frameworks for corporate responsibility, I will also review studies to determine the potential benefits and consequences of corporate virtue signaling on society and the firm.

This paper will provide an overview of corporate virtue signaling and be useful in understanding the potential results of the trend. Likewise, the paper will analyze corporate signaling from a philosophical and financial perspective to examine potential benefits and drawbacks. This paper will add to the literature on corporate virtue signaling and social responsibility. Corporate signaling will be analyzed from two main corporate responsibility frameworks, one emphasizing shareholder interests and the other stressing wider stakeholder interests, and then trace these into a discussion of the public and firm-specific signaling results. Summarizing the literature on corporate virtue signaling, this paper will offer an examination of the topic and suggest multiple avenues of additional research.

CHAPTER TWO

The Nature of Virtue and Self-Interest

Chapter Introduction

Virtue has become definitionally ambiguous. Due to differences in moral understanding, virtue has been defined differently by various sources, across many periods, so specifying the term for the purpose of this paper is a complex undertaking. The definition and understanding change depending on cultural influences and the dominant philosophical trends. In light of this complexity, genuine virtue will be based primarily on Aristotle's *Nicomachean Ethics* and the evolution of virtue through Western thought will be traced by a variety of European and American sources. From these sources, the concept of individual virtue will be defined and the potential of corporate virtue considered. However, this chapter will also trace the devolution of the modern understanding of virtue, synonymizing it with usefulness, and highlighting key ways the corporate perspective differs. This will lay the groundwork for establishing that a corporation cannot possess true virtue, it can only make imitations through signaling that will need to be assessed by another standard.

Establishing Virtue

Establishing a baseline for true virtue, *Nicomachean Ethics* depicts virtue as an attribute meant for the human soul to follow. Aristotle describes man's purpose and their pursuit of happiness, stating that the "human good turns out to be the activity of the soul in accordance with virtue, and if there are more than one virtue, in accordance with the best and most complete" (Aristotle 1098a15-20). Virtue is a way in which the soul can act. Virtue involves and begins with an internal, not external, action. Aristotle holds that the agent of a virtuous act must act with knowledge, have free choice, choose virtue for its own sake, and the act must proceed from a firm and unchangeable character. He asserts that every virtue is chosen for themselves and for the chief human good, happiness. Beyond this, Aristotle states that happiness must be determined "in a complete life" (Aristotle 1098a15-20) as happiness is not determined by one day nor is virtue chosen just once. This is a holistic definition, showing how and why virtue is essential to curating Aristotelian happiness. The importance of this is in showing a corporation cannot possess Aristotelian virtue since a company lacks a life, an unchangeable character, or even a baseline for happiness. It cannot have the living human abilities and constraints that are required for true virtue. While people in a corporation can possess virtue, the organization itself cannot.

There is also the important note that virtue is a mean, not an extreme of itself. Aristotle defines moral virtue by stating that "it is a mean between two vices, that which depends on excess and that which depends on defect; and again it is a mean because the vices respectively fall short of or exceed what is right in both passions and actions, while virtue both finds and chooses that which is intermediate" (Aristotle 1107b0-5). Virtue is not an extreme, as an excess would be characteristic of a vice. Likewise, he states "Virtue, then, is a state of character concerned with choice, lying in a mean, i.e., the mean relative to us, this being determined by a rational principle, and by that principle by which the man of practical wisdom would determine it" (Aristotle 1107a35-1107b5). This becomes much murkier, especially since a man of practical wisdom is not defined.

Many people create rational justifications based on one standpoint alone, such as utility or wealth maximization, which can be problematic. Likewise, the relative interpretation of where the mean lies creates more uncertainty as to how people can recognize their ability to attain Aristotelian virtue.

Aristotle's rich understanding of virtue is challenging to state succinctly, but it requires summarization to consider if it is possible within the corporate context. Macintyre summarizes Aristotle's definition by saying, "The virtues are precisely those qualities the possession of which will enable an individual to achieve eudaimonia and the lack of which will frustrate his movement toward that telos" (MacIntyre 131). Here, "eudaimonia" is Aristotle's complex definition of a good life that is often translated as "happiness" although it is much more than that. MacIntyre further enlightens the concept by stating,

> [Aristotle] gives to it the name of *eudaimonia* —as so often there is a difficulty in translation: blessedness, happiness, prosperity. It is the state of being well and doing well in being well, of a man's being well-favored himself and in relation to the divine. (MacIntyre 131)

The importance of MacIntyre's summarization of virtue is in how deeply human the concept is. A corporation does not have a relation to the divine and it cannot achieve the natural end of virtue, eudaimonia. While a corporation can prosper, it cannot be blessed nor does it have the ability to be happy. The employees within a corporation can be and do these things, but the legal entity of a corporation cannot.

Further applying Aristotle's and MacIntyre's assertions to corporations, it is notable that a corporation neither has a soul nor an unchangeable character from which to seek eudemonic happiness. Because people, ideas, and strategies come and go during a life of a business, it cannot seek an end or have a character bound by a lifetime the way a person does. Likewise, a corporation—defined separately from the people working for it—cannot achieve the end of the virtue pursuit, the Aristotelian ultimate human good of happiness. Consider a corporation as a table, a set structure in which people work toward certain objectives. If a person or group of people at the table lived their lives virtuously, then one would say those people are virtuous and expect them to act accordingly. It would not be reasonable to say that the table is virtuous and expect all decisions made at it to reflect its virtuosity. Inherently, an organization cannot meet the requirements to hold Aristotelian virtue. Beyond this, a corporation has not been defined for the purpose of seeking a mean in its decisions. Rather, a corporation is often more focused on profitable results and their measurable successes than the choices behind them.

However, the internal root of virtue is not the only important aspect. Because there is a key external element that virtue signaling may emulate, it is important to discuss the importance of virtuous action and habits. Aristotle states, "it makes, perhaps, no small difference whether we place the chief good in possession or in use, in state of mind or in activity" for the "one who has the activity will of necessity be acting, and acting well" (Aristotle 1098b25-35). Actions build habits, which subsequently form one's character and ability to live, think, and act virtuously. These ideas are further explored, showing how precisely habits form a person and the soul's state. He goes so far as to state "It makes no small difference, then, whether we form habits of one kind or of another from our very youth; it makes a very great difference, or rather all the difference" (Aristotle 1103b20-25). Appropriate responses should be incorporated into our habits, so virtue becomes second nature, and the potential of goodness and happiness is created.

Habit will form the basis of one potentially redeeming aspect found in the signaling of virtue. If the corporate social activity nurtures positive individual habits, then there could be some value in its continuation. Social influences and the examples provided can prompt certain actions and reinforce them into habits. Corporations often have a significant quantity of resources and influence that can guide the public towards thinking and acting in a certain way. There is potential for companies to influence people's habits through corporate actions and initiatives. There is a great risk presented alongside this opportunity as marketing intertwines with social advocacy. As a consumer can become accustomed to purchasing a company's products, so too can one become a committed consumer and perpetuator of their expressed cultural values. More research on this phenomenon is required to derive meaningful assertions, as corporate social advocacy could serve as an echo chamber for what is already popular in society or as an amplifier to an idea gaining traction. The level of corporate influence could be dangerous or, theoretically, used for good.

Corporate Virtue Signaling

Corporate virtue signaling carries an inherently negative meaning used colloquially, but I will define the action apart from its unfavorable reception. In this paper, corporate virtue signaling will define any time a for-profit corporation publicly makes a statement based on moral grounds. Signaling will include corporate social advocacy, political advocacy, environmental positioning, and philanthropic efforts as they stand apart from normal business operations. Instead of focusing on the company's internal operations, signaling encompasses the company's external presence, appearance, and influence over the public. This definition of corporate virtue signaling is key because it does not take a standpoint on if it is inherently good or bad, right or wrong. Those questions can only be answered on a case-by-case basis. This being said, a corporation's signals may relate to other objectives such as marketing and profitability.

Another key consideration of virtue is its relationship with wealth, a topic of primary importance to corporations. This is not a new idea, as even in the 300s BC, Aristotle explicitly defined two virtues regarding how wealth should be handled. Virtue regarding wealth is much more concerned with giving than receiving. Aristotle analyzes the virtue of liberality which "seems to be the mean with regard to wealth; for the liberal man is praised not in respect of military matters, nor of those in respect of which the temperate man is praised, nor of judicial decisions, but with regard to giving and taking wealth, and especially in respect of giving" (Aristotle 1119b20-25). Although there must be a balance in giving and taking, the importance of wealth is not primarily in taking it from others; rather, it is in giving it to them. Aristotle uses this quote to set the stage for the many distinctions regarding the virtue of liberality, which defines the character of a discerning and noble giver. Beyond this, liberality leads into the virtue of magnificence, where plentiful giving fosters beauty. These virtues do not align well with traditional corporate pursuits.

In the case of for-profit corporations, mimicking liberality and magnificence would be radical and potentially disastrous. Without concern for the corporation's wealth (which is not entirely its own), such actions could easily result in lawsuits claiming a breach of fiduciary duty. While too liberally distributing corporate funds can spell trouble for a company, corporations give wealth to much more than their shareholders—they give wealth when making investments, paying employees, and sometimes donating funds. While these activities are important to many companies, the primary emphasis will usually be accumulating wealth rather than giving it. A for-profit company, by its nature, cannot be more dependent on the distribution of wealth than its accumulation. The motives of corporate virtue signaling should be called into question since the line between supporting a cause versus influencing marketing and sales becomes blurry. If the corporation were to give selflessly, generous in regard to the amount and not concerned with acquiring more wealth, claims of irresponsibility could erupt, and financial ruin could ensue. The organizational structures best suited to mimic liberality and magnificence are non-profits and charitable foundations. These charitable organizations distribute large amounts of wealth, often with a mission statement relating to grandiose, worthy causes. The difference between a for-profit and non-profit organization is clear in how they can have varied approaches to wealth because they were formed to pursue different goals.

Self-interest is no small matter in the business world. Shareholders want wealth and desire companies that will generate it and benefit them. Likewise, the company's managers and board of directors want it to remain in business. There is a system of checks and balances within the corporate environment. Employees must answer to the CEO, the CEO must answer to the board, and the board must answer to shareholders. All parties must answer to the law, which chartered the corporation and will be influential in lawsuits resulting from corporate actions and inaction. Similarly, all stakeholders in an organization may be subject to public scrutiny and pressure. For a corporation to act with true abundant generosity can be considered inappropriate, as it may jeopardize the shareholder ownership of the company and its assets.

Virtue Devolution due to Self-Interest and Utility Theory

It is important to discuss individual self-interest because not only do corporations function through the individual manager, employees, and stakeholders, but also the concept of corporate personhood. These firms have rights, responsibilities, and legal standing apart from the people that run and influence them. A corporation exists beyond its board, CEO, and senior management. While any individual in a corporation may act virtuously, the corporation is not inherently virtuous because of them. The company cannot possess virtue, at most it could only support initiatives to inspire it in people inside and outside of the firm.

This paper will add to current literature surrounding individual moral confusion by expanding it to the corporate world. MacIntyre discusses the phenomena and traces it across time in his book *After Virtue*. He states,

> We possess indeed simulacra of morality, we continue to use many of the key expressions. But we have —very largely, if not entirely— lost our comprehension, both theoretical and practical, of morality. (MacIntyre 15)

He clearly defends his thesis that people have lost track of what virtue is and have no idea how devolved the current understanding is. He goes on to express that virtue signaling is abundant in the human sphere as well. MacIntyre states,

> At the same time the liquidation of the self into a set of demarcated areas of role-playing allows no scope for the exercise of dispositions which could genuinely be accounted virtues in any sense remotely Aristotelian. For a virtue is not a disposition that makes for success only in some one particular type of situation. (MacIntyre 175)

This devolution from virtue to simply the signaling of it, paired with modern people’s inability to see or understand the difference is essential. However, this devolution of understanding exists not only in the individual world but also is clearly displayed in the corporate landscape. Therefore, I will trace key sources in understanding this from a corporate perspective.

Adam Smith's *The Wealth of Nations* establishes self-interest as the driving force of decision-making and moves the focus of wealth from giving to getting. Here, personal utility and accumulation are prioritized over virtue and proposed to serve society better. Smith describes how men make decisions as "he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention" and "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it" (Smith 349-350). This quote is important because it weaves in the idea of the invisible hand, which creates an air of order out of the net effect of every individual acting out of self-interest.

While acting in one’s self-interest would presumably benefit oneself, this is not always the case. Maximizing personal utility is not necessarily maximizing the person. Human self-interest may occasionally harm the individual but ultimately benefit society. This is best explained by Smith in *The Theory of Moral Sentiments*' allegory of the poor man's son. Smith states that power and riches “keep off the summer shower, not the winter storm, but leave him always as much, and sometimes more, exposed than before to anxiety, to fear, and to sorrow; to diseases, to danger, and to death” (Smith 268). The system poses to simultaneously benefit everyone as a whole yet nobody as an individual. This is a concerning derivative of the self-interest dogma. If self-interest can harm individuals for the benefit of society, it begs the question of when society could suffer from all those who have been harmed. While Smith also defines other human motivations besides self-interest, including praise-worthiness, his emphasis on self interest was what he focused in in *The Wealth of Nations*, which was written after *The Theory of Moral Sentiments.* As such, the more enduring focus on self-interest is where I place the emphasis of Smith's role in the evolution of societal perspectives on utility.

Smith outlines the tragedy involved yet still considers the deception and lure of riches to be good for mankind. He states, "If we consider the real satisfaction which all these things are capable of affording, by itself and separated from the beauty of that arrangement which is fitted to promote it, it will always appear in the highest degree contemptible and trifling" (Smith 269). The man's desire is focused solely on oneself and, even then, not guaranteed to benefit oneself. Smith recognizes that a man can spend his whole life interested in improving his situation but end up ruining himself and being entirely dissatisfied. Even while Smith sees this shortfall, he states, "And it is well that nature imposes upon us in this manner" as "It is this deception which rouses and keeps in continual motion the industry of mankind" (Smith 269). Society remains productive at the expense of man's happiness, which is seen to be an acceptable tradeoff.

Although not diametrically opposed to one another, self-interest and the maximization of utility is notably different than the happiness and virtue which Aristotle believed should govern decision-making. If happiness and virtue comprise the utility people receive from decisions and actions, then things would be much simpler. However, Smith's analysis suggests that is not the case. It is a slippery slope to replace ethics with utility maximization. Society runs on concerning principles if the driving focus on personal riches leads to the wealthy's dissatisfaction and benefits the poor only enough to sustain them. Society is motivated first by self-interest and second by deception. Man first wants to satisfy himself and then is tricked into the idea that riches and power are a way to do that. The goal of riches based on personal utility is attaining rather than giving wealth. The method or rules to follow in the pursuit of wealth are unclear.

Democracy in America builds off Smith's utility while outlining virtue, suggesting it is viewed in a fundamentally different way. Tocqueville states, "In the United States hardly anybody talks of the beauty of virtue; but they maintain that virtue is useful, and prove it every day" and "They therefore do not deny that every man may follow his own interest; but they endeavor to prove that it is the interest of every man to be virtuous" (Tocqueville 220). Tocqueville shows how Smith's economic concepts and fixation on utility are now used to form the understanding of virtue. This is fundamentally different from Aristotle, where virtue was meant to be pursued for its own good and the ultimate good. Here, utility stands revered in happiness' place. Regarding the doctrine of self-interest rightly understood, Tocqueville holds that "if it does not lead directly to virtue by means of the will, it approaches it imperceptibly by means of habits" (Tocqueville 221) and while this may pull down some individuals, it elevates the species. This assertion brings Aristotelian merit, as habit can plow the field where virtue can be sown; however, a fertile soil offers no guarantee of growth. This quote also uncomfortably concedes to the perspective's incompleteness since it fixates on a decent result, which can hold some back, rather than the best, which would ideally lift all up.

The growth of virtue can be inhibited by the threat of systemic vices. It is no small matter that Tocqueville also asserts, "Egotism blights the germ of all virtue;

individualism, at first, only saps the virtues of public life; but, in the long run, it attacks and destroys all others, and is at length absorbed in downright egotism" (Tocqueville 205). He makes this statement in the context of how democracy enables men to be independent of one another in ways aristocracy does not, and this can breed an egotistical mindset that can drain virtue from society. Thus, not only does the concept of virtue reduce to its usefulness but also the remaining shell of virtue is prone to shatter when faced with the vice of egotism. Considering the threat of egotism alongside Smith's rule of self-interest, it is easy to see how human affection can be disconnected to the point that society is threatened and only an economic system remains.

In *The Protestant Ethic and the "Spirit" of Capitalism,* Weber says the spirit of capitalism embodied by Benjamin Franklin's writings shows virtue, which amounts only to its appearance, as a means of usefulness. Weber asserts that Benjamin Franklin, whose writings embody the capitalistic spirit, holds that all virtues "are only in so far virtues as they are actually useful to the individual, and the surrogate of mere appearance is always sufficient when it accomplishes the end in view" (Weber 12). In this understanding, the true Aristotelian virtue is no longer important. Capitalistic virtue is instead a means through which personal gain can be attained under an admirable facade for self-interest. This external appearance of virtue is virtue signaling. Unlike Aristotle's internal nature of virtue, Weber's external nature can be attained by various non-human entities, including corporations. The corporate virtue signaling would equate to corporate virtue in his understanding.

Beyond this striking development, Weber holds that the pursuit of external wealth has become an end in itself. He states that while the "aim of a man's life is indeed moneymaking" that "this is no longer merely the means to the end of satisfying the material needs of life" (Weber 12). The spirit of capitalism understands this ever-renewing profit as an end in itself and pursuing wealth as one's duty. He ties this to Protestantism's idea of a worldly "calling" which gives worldly activity a religious underpinning. This attitude broke down the traditional economic system and set in motion modern capitalism. Thus, the Protestant work ethic exists ungrounded in religious thought through the spirit of capitalism. This spirit embodies the inescapable pursuit of external wealth with religious zeal but without religious grounding. The definition of true wealth, and whether this means money or virtue, is the crux of understanding the differing arguments at play.

How Personal and Corporate External Values Result in Virtue Confusion

Differing views on wealth and money shape the perception and definition of virtue, and laying out the differences in this perspective is essential to understand the resulting moral confusion. In the Sermon on the Mount, Jesus states,

> No one can serve two masters. Either you will hate the one and love the other, or you will be devoted to the one and despise the other. You cannot serve both God and money. (*NIV Bible*, Matthew 6:24)

As such, the end followed will determine the path as well as the destination. The common error, wealth, proves to be similarly misleading. As Aristotle pointed out, it is the ultimate good that must be followed rather than money.

Godliness is the ultimate good from Christian interpretation, so, while the end is defined differently, the same shortfall of wealth remains. Aristotle asserts, "The life of money-making is one undertaken under compulsion, and wealth is not evidently the good we are seeking; for it is merely useful and for the sake of something else" (Aristotle 19096a1-10). Monetary wealth is not an end, as it is only useful for other things. Aristotle's understanding shuns the chasing of intermediate goods and proposes giving them as incredibly more important through liberality. Virtue and success are further cemented as internal pursuits towards something higher. External monetary wealth does not compare, as the aim is external accumulation and does not require internal growth.

Contrasting the understandings of Aristotle and Jesus with those of Tocqueville and Weber, a rift is seen as they approach the subject of virtue from entirely different mindsets that follow incomparable ends or masters. Weber's analysis of the capitalistic call of money-making as an end stands in stark contrast to Aristotle's understanding of money as a means. Thus, the internal calling to a higher end devolved into an all-consuming search for more means. This monetary fixation creates an external understanding of virtue that distances itself from the higher meaning of the past. This understanding of wealth is critical in shifting to the corporate perspective regarding virtue and money.

What people consider as the ultimate end will often determine what, if anything, people value in the course of reaching that end. Amid individual and group confusion of what will satisfy them, the rational sound of self-interest and personal utility have begun to separate from and overshadow actual virtue or holistic happiness. This is problematic, coming with a unique set of challenges and wide-spanning influence. The individual desire to maximize one’s own utility simply through wealth and power has permeated the business sphere. While corporations cannot hold virtue, they take certain actions to influence society. The crux lies in what ways and how much corporate power is used to influence individuals. The signals corporations send, especially under virtuous pretenses, have a material effect on society and how people understand and exhibit virtue.

CHAPTER THREE

The Corporate Interest

Chapter Introduction

There are many different views on what a corporation's interest is and what it should be. The interest of a corporation is not a simple topic to approach, and each theory on the goals of the corporation relies on fundamental assumptions regarding who has the power to define the corporation's role and who the entity should serve. This chapter will compile views from academics, economists, and business owners to provide a comprehensive review of what the corporate interest is and how it is being communicated.

There are two primary views of the role of the corporation, which are important for understanding the current divide in how corporations should act. These views are outlined in "M&A Legal Context: Basic Framework for Corporate Governance" which traces the historical roots of the corporate form to show how the two views began. The first view envisions corporations as private entities meant to maximize shareholder wealth. The second view is that the role of the corporation is "tinged with the public purpose" (Baldwin et al. 2) due to the state's role in chartering corporations. Corporate charters were originally given to use limited liability as a means of encouraging investment in large projects that would benefit the public, such as railroads. As such, corporate managers would then be expected to consider all stakeholders, which includes the public, in their decisions.

There is a fundamental shift between these views regarding a firm's corporate responsibility. The first view discounts any allocation of resources that does not contribute directly to the maximization of shareholder wealth, which includes corporate attempts at virtue signaling or spending on social advocacy that does not ultimately benefit the firm more than it costs. In this view, the corporation should not allocate resources to social advocacy, but rather redistribute the firm's cash flows to shareholders to spend, donate, or advocate as they please. The only reason a firm would participate in social advocacy is to add value to the firm, whether that be through effective marketing, positive press, or attracting employees and suppliers. Denis summarizes this in her paper defending the maximization long-run shareholder value as the corporate objective by stating, "to say that shareholder wealth maximization is the corporate goal does not suggest in any way that only shareholders matter" (Denis 82). Meanwhile, the second view of a corporation may encourage excess corporate spending for social causes, as social advocacy may be considered a public service and firms may see this as a means of fulfilling this public duty. If a firm must consider all stakeholders, then it will be more inclined to participate in advocacy or publicized philanthropy to prove the fulfillment of its public responsibility rather than to maximize long-term shareholder value.

The first view values maximizing shareholder wealth above all, considering only shareholder consequences rather than taking a broader purpose. Signaling is the only aspect of virtue a firm can maintain, as external signals are all a firm is incentivized to uphold. Signals can provide a way to unite the mission to maximize the company's value with the perception of virtue and trust. This is because the signals, the publicization of certain actions, can build a positive brand image and spur demand for a firm's products.

The Wall Street Journal shed light on the phenomena by interviewing various people on their opinions regarding corporations taking political and social stances. Lauren Eggleton responded to the Wall Street Journal stating that "Corporations aren't doing anything spectacular, then, by entering the political fray" instead, "They're simply marketing to a conflict-addicted country" (Eggleton). Corporations use the projection of values to capitalize on public perception. These signals are not necessarily bad, they can provide useful aid and information, but they are not the result of virtue. The internal choice of virtue, and activity of the soul required by Aristotle, renders corporate values and virtue signaling as incomplete facades to augment utility rather than righteousness.

The remainder of this chapter will detail how conflicting visions of firm purpose have developed over time. By citing influential business leaders and economic theorists, the core messages of competing perspectives on the corporate purpose will be put to the test. Additionally, it will be necessary to question the authenticity of some business leaders who advocate for stakeholder theory because of the ambiguity surrounding the vision. Since stakeholders can be defined broadly, corporate executives could insulate themselves from the backlash of many shareholders and even fellow stakeholders by adopting a broad perspective without measurable results.

A Key Debate on Business Social Responsibility

The debate of the two views – shareholder wealth maximization and the broader stakeholder theory – is also embodied by the conflict of corporate visions discussed in "Rethinking the Social Responsibility of Business" where Milton Friedman and John Mackey debate the role of a corporation in society through a series of essays. Mackey establishes a two-tiered argument for (1) an entrepreneur-decided business mission that may incorporate social responsibility or not and (2) the superior marketability of the stakeholder and public responsibility perspective. Friedman responds to Mackey's argument by taking the traditional view of corporate shareholder interest for economic efficiency.

Mackey outlines how Whole Food's corporate philanthropic efforts can be beneficial for marketing in the sense of attracting and sustaining customers but adds, "I believe such programs would be completely justifiable even if they produced no profits and no P.R" since "I believe the entrepreneurs, not the current investors in a company's stock, have the right and responsibility to define the purpose of the company" (Friedman et al.). This perspective is an attractive one, yet it is notable that the entrepreneurs' success will still ultimately depend on stockholders being willing to buy into their value proposition, charity included or not. The entrepreneur may have a right to define their business vision, but that alone does not guarantee its success or realization.

Surprisingly, Mackey takes an extremely humanistic view of corporations that is closely and firmly tied to the entrepreneur's vision. He references *The Theory of Moral Sentiments* in his justification for why corporations give money to the community stakeholder. Mackey explains Smith's perspective that human nature is about more than self-interest because "It also includes sympathy, empathy, friendship, love, and the desire for social approval" (Friedman et al.). While he includes the variety of interests mentioned by Smith, he fails to include how Smith considers these less productive and effective to help others than the solely self-interested approach. This citation points to a weakness in his argument, wherein the efficiency of the business is overlooked in favor of other human interests. He does this again when stating,

> Just as people cannot live without eating, so a business cannot live without profits. But most people don't live to eat, and neither must businesses live just to make profits. (Friedman et al.)

This is an interesting analogy, considering he implies a business is like a person in more than the sense of being an equivalent legal identity. He states that the corporation should have a larger purpose than profits without specifying what this should be. He implies a firm's public responsibility is established by the CEO, but the lack of clarity points to this being a good-sounding statement without a solid foundation. Mackey takes a very humanistic view of the corporation, which for better or for worse, may oversimplify and distort both human and corporate natures. Mackey states,

> But just as individuals can feel a responsibility to provide some philanthropic support for the communities in which they live, so too can a business. The responsibility of business toward the community is not infinite, but neither is it zero. Each enlightened business must find the proper balance between all of its constituencies: customers, employees, investors, suppliers, and communities. (Friedman et al.)

This is an extremely humanistic view of the corporation, and he likens a business to a person again. Part of this is because Mackey envisions a deep connection between a business and its entrepreneur, making his view of a corporation's purpose slightly different from the traditional view of corporate social responsibility. However, the stark contrast between the corporation and its employees in terms of human capacity is largely ignored by Mackey. Notably, a corporation lacks a life, soul, and capacity for happiness. His humanistic view of corporation paired with a vision defined by its entrepreneur makes for a complex but fragile perspective. It suggests that a firm is inseparable from the vision of its starter, such that the firm and its purpose is an extension of their character. His view does not consider how corporations can outlive their founders and can fundamentally shift vision over time. They are not bound to serve any vision or virtue of the entrepreneur.

Friedman's response dives into the heart of this issue by questioning its impact on efficiency and its viability as a business strategy. Friedman offers a refute, targeting the nature of the issue: the costs should outweigh the benefits associated with companies engaging in charity directly, so corporate charitable activities are not logical. When a corporation takes an active role in its philanthropy, it deprives the shareholders of the opportunity to direct these funds in their own interests. The only strategic reason to do it within the corporation is for tax reasons. Friedman proposes that a firm deciding on the distribution of its profit directly would not benefit society more than investing that stream of profit in the enterprise itself or paying it out as dividends for stockholders to decide its purpose. Freidman states that corporations choosing to make this distribution themselves "makes sense only because of our obscene tax laws, whereby a stockholder can make a larger gift for a given after-tax cost if the corporation makes the gift on his behalf than if he makes the gift directly" and, while it is a good reason for changing tax laws, "it is not a justification for corporate charity" (Friedman et al.). This is a key distinction, highlighting how tax incentives can contribute to corporate charity (or the strategic corporate charity of corporate virtue signaling). However, this does not mean that the action itself is productive or maximizes social utility. The specialization of this process, by letting the shareholders themselves determine the purpose of the cashflows they own, could yield greater social benefit than the corporations undertaking the charity decision themselves.

Mackey and Freidman agree in regard to the idea that charitable activity should not be forced. Mackey states, “Business social responsibility should not be coerced; it is a voluntary decision that the entrepreneurial leadership of every company must make on its own” (Friedman et al.). This pairs well with Freidman’s assertion that it should not occur for reasons other than maximizing profit, thereby meaning that the signaling should not be forced apart from purely strategic marketing.

It is important to note a clear shift in Mackey’s tone when speaking on an individual business level compared to his broader ideas on how his idea of business interest will flourish. He begins by defining how his business’ model treasures philanthropic efforts and stakeholder interests, and later transitions into how his model of corporate interest makes capitalism more palatable to the public. Mackey initially states,

> While Friedman believes that taking care of customers, employees, and business philanthropy are means to the end of increasing investor profits, I take the exact opposite view: Making high profits is the means to the end of fulfilling Whole Foods' core business mission” (Friedman et al.)

This idealistic one-liner speaks to Mackey’s role in representing his business, but future comments prompt readers to question the authenticity of the statement. While Mackey sincerely cares about how he defines the social responsibility of his business, there remains the question of whether the nature of the business can be as sincere in this pursuit.

However, Mackey does not hold to this core vision as a pure, selfless cause. This is seen as Mackey transitions his argument into a marketing strategy for capitalism stating that if his and Friedman’s arguments truly mean the same thing, then his own statement “has the superior ‘marketing power’” (Friedman et al.). Here, Mackey reframes his argument into a marketing pitch for capitalism. He is trying to say that his approach is equal in substance to Friedman's perspective but better worded for public approval. Mackey's statement here becomes a form of signaling. In response to Friedman's statements, Mackey asserts that "If we are truly interested in spreading capitalism throughout the world (I certainly am), we need to do a better job marketing it" and "I believe if economists and business people consistently communicated and acted on my message that 'the enlightened corporation should try to create value for all of its constituencies,' we would see most of the resistance to capitalism disappear" (Friedman et al.). Mackey's argument is the marketable version of profit maximization. His assertion may hold weight as it is reflected in how businesses have changed how they represent themselves publicly. The corporate shift for the more marketable stakeholder capitalism may have contributed to a rise in corporate virtue signaling. The Business Roundtable's assertions on the corporate purpose, developing it from shareholder to a stakeholder focused is reflective of Mackey's standpoint and speaks to its superior marketability.

The Business Roundtable's Definition of Corporate Purpose

Along with the growth of virtue signaling came a corporate shift in how executives understood their firms' duty. This shift was clearly displayed in 2019 when the Business Roundtable issued the "Statement on the Purpose of a Corporation" which was agreed on by 181 of America's top CEOs. The Business Roundtable represents chief executive officers (CEOs) of America's leading companies and functions as a hub for their research and advocacy for policies meant to influence the economy. Their new "Statement on the Purpose of a Corporation" overturned a statement that had been issued twenty-two years prior which had defined the purpose of a firm to be maximizing shareholder value in favor of a new purpose to serve all stakeholders. The updated statement transitioned to the new view that "companies should serve not only their shareholders but also deliver value to their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate" ("Business Roundtable Redefines the Purpose of a Corporation…"). The resolution clearly takes the standpoint that maximizing stakeholder, not just shareholder, value is the way forward for businesses in the United States.

The new resolution was clear that corporations have a public responsibility to their community as well as all stakeholders. The resolution stated, "While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders" ("Business Roundtable Redefines the Purpose of a Corporation…"). This assertion was followed by specific commitments to customers, employees, suppliers, communities, environments, and shareholders.

Many CEOs provided quotations to the Business Roundtable supporting this change. Dough McMillan, the President and Chief Executive Officer of Walmart and Chairman of the Business Roundtable, states,

> Concurrent health, economic and racial crises have made clear how various systems are connected – and that multi-stakeholder capitalism is the answer to addressing our challenges holistically. America's CEOs remain steadfast in our commitment to pursue economic prosperity and expanded opportunity for our employees, customers and the communities we serve. ("One Year Later: Purpose of a Corporation")

Likewise, many other CEOs reflected on this change positively. As the Chairman and Chief Executive Officer at Johnson & Johnson and the Chair of the Corporate

Governance Committee at the Business Roundtable, Alex Gorsky reflects on the 2019 roundtable statement in saying,

> We could not have known how timely clarifying our commitment to leading our companies for the benefit of all our stakeholders would be ahead of the COVID-19 pandemic, and I've been proud to see how the private sector has stepped up — both in helping to address ongoing upheaval and uncertainty, and in continuing to evolve our businesses to be as diverse, equitable, and inclusive as possible. ("One Year Later: Purpose of a Corporation")

Gorsky praises the timeliness and corporate action following the statement, considering it a great marker of change for the business community. The CEOs held a high opinion of the statement released and the progress that they had made toward stakeholder responsibility. However, many members of the business community and the public did not consider the statement or its results to be worthwhile. For example, Bebchuk and Tallarita's critique points to the problematic nature of the new statement. This calls into question if the statement of purpose was merely corporate virtue signaling.

In 2020, Bebchuk and Tallarita offered a sharp critique of the Business Roundtable's "Statement on the Purpose of a Corporation". They state, "Based on evidence that we collected, and on a close reading of the statement and accompanying materials, we show that the BRT statement was mostly for show, largely representing a rhetorical public relations move, rather than the harbinger of meaningful change" (Bebchuk and Tallarita 98). They outline how the statement's signaling nature is supported by a lack of CEO effort to seek board approval on material ratifications to policies. Additionally, the authors discuss substantial implementation vagueness given the document's ambiguity, lack of consideration of trade-offs in transitioning to stakeholder rather than shareholder interests, and the lack of legal considerations that can prevent companies from independently pursuing stakeholder interests. They suggest that these issues indicate that the CEOs signing this document did not intend to make material changes to their companies' business approach.

If the critique of Bebchuk and Tallarita's is correct, then the nature of corporate virtue signaling is exposed and has a dark underside of managerial pandering insulated from accountability to both stakeholders and shareholders. The authors present the Business Roundtable's well-publicized 2019 "Statement on the Purpose of a Corporation" as ridiculous and, beyond that, dangerous. If stakeholders believe that they are being taken care of, then they may not hold the businesses accountable. The authors describe this phenomenon by stating,

> By raising illusory hopes regarding its positive effects for stakeholders, stakeholderism could well weaken pressures and demands for such reforms and the openness of policymakers to them. Thus, for those interested in addressing corporate externalities and protecting corporate stakeholders, embracing stakeholderism would be substantially counterproductive. (Bebchuk and Tallarita 101)

Likewise, the vagueness of stakeholder interest may let managers hide from answering shareholder calls for accountability. The authors state,

> Increased insulation and reduced accountability would increase managerial slack and agency costs, thus undermining economic performance and thereby damaging both shareholders and stakeholders. The danger is that, by cloaking it in stakeholder clothing, stakeholderism would advance a managerialist agenda, thus facilitating a new managerial era. (Bebchuk and Tallarita 101).

As such, there are substantial concerns that underlie the very positive-sounding resolve to promote stakeholder interest. The vagueness inherent in the statement can hide other interests, especially managerial incentives.

Conclusion of the Corporate Interest

Corporate interests are complex: firms must appease shareholders while upholding a public image that is good for business. While there are competing visions of who the corporation should serve and how they should be served, the more robust model is evident. Maximizing shareholder wealth in the long run is how many corporations operate. The stakeholder perspective, although considered extremely marketable, appears to be more of a signal than a comprehensive primary corporate purpose. In fact, the popularity of the stakeholder model and the robust CEO press around it suggest that the stakeholder perspective is merely a signal of virtue.

It is concerning that not only our understanding of virtue is deteriorating but also our understanding of the role corporations serve in society. It is no shock that this era has given rise to considerable corporate virtue signaling. Corporations may be attempting to regain trust with people who distrust unfeeling, capitalistic endeavors. However, stakeholder theory may have unintended consequences that do not benefit the public or stakeholders. Attempting to prescribe a very humanistic approach to non-human entities should be viewed skeptically, because such expectations may simply be well-meaning and well-sounding deceit.

The following chapter will review key studies relating to virtue signaling to see if signaling is useful for companies and the public. It will cover a variety of methods and situations that involve virtue signaling and state the results of the studies. The next chapter will conclude what types of signaling are useful, when they make a positive or negative impact, and who benefits from signaling.

CHAPTER FOUR

The Utility of Virtue Signaling

Chapter Introduction

While virtue signaling is not virtuous, whether it is useful for increasing company value and shareholder wealth remains in question. In order to determine if the first view of corporate interest, where corporations should serve shareholder interests, can justify virtue signaling, studies on the impact of virtue signaling on a business must be discussed. Likewise, the social impacts of corporate virtue signaling will be analyzed to see if there is a true social benefit resulting from the practice, informing whether or not the second view of the corporation, where it should serve all stakeholders, can be used to justify signaling. This chapter aims to discuss the merits and shortfalls of the practice of signaling, to see who can benefit and how the firm can approach signaling efforts to optimize their impact and avoid backfiring. A review of various studies will be reviewed to consider the results of virtue signaling and how the signal's context and brand are key in determining the result of a firm's signaling efforts.

Examining the Social Impact of Signaling

The social impact of virtue signaling is not as widely studied as the financial impact on the firm itself. Corporate social responsibility (CSR) and other forms of virtue signaling are challenging to analyze in terms of societal benefits. Literature acknowledges the lack of sources stating that the "welfare effects of CSR are more difficult to establish than positive economic explanations, and have received less scholarly attention" (Lyon and Maxwell 241). The effect on society is more ambiguous, and perhaps more dependent on the beliefs of the authors than the actual signals themselves. Some authors consider dissensus, where social discourse is prompted by the conflict arising between parties, to be beneficial to society. However, other studies conclude that signaling attempts do not often result in substantial social gains.

Signaling resulting in dissensus has been considered a positive social result. The article "Challenging the Dialogic Promise: How Ben & Jerry's Support for Black Lives Matter Fosters Dissensus on Social Media" discusses corporate political advocacy strategy and studies Ben & Jerry's support of Black Lives Matter on Facebook, the public's response to the company's stance, and the role of public relations in the resulting discourse to ascertain how the firm's social media functions as an ideological reservoir with which society interacts. Here the authors consider the value of corporate political advocacy without monetary measure as part of Ben & Jerry's standpoint of "activism-infused capitalism" (Ciszek and Logan 119). The authors then analyze the top 200 comment threads of the more than 4,000 comments on Ben & Jerry's initial post announcing support for the Black Lives Matter Movement. They discuss the context surrounding the event and propose that the widespread disagreement generated by the post is socially beneficial.

The authors praise signaling in the context of corporate political advocacy (CPA) because taking a stand and starting a debate between conflicting viewpoints allows a firm to positively impact society. Ben & Jerry's standpoint appears to go beyond stakeholder theory, as they serve organizational values first and stakeholders second. The authors state,

> Corporate political advocacy (CPA) accepts that not all stakeholders will agree with the ideologies and values advocated by an organization, resulting in the possible alienation of certain publics. Moreover, within a CPA framework, political and social justice issues are of primary concern, not a corporation's financial bottom line. Thus, CPA situates corporations as values-driven organizations that recognize that the profit imperative may not be the only or even the most important consideration in organizational life. (Ciszek and Logan 118)

The authors highlight how the organization's primary commitment to ideologies rather than stakeholders or shareholders distinguishes CPA from CSR. This article considers corporate virtue signaling from a value-driven public relations perspective and frames the activity in a positive light. However, there was a lack of accessible numerical data supporting the positive social impact. Afterall, social impact is an elusive thing to measure or quantify. The article appears to assume the firm's good intentions and good activism and use it to justify how the dissensus is also socially beneficial. The positive perspective on CPA can be seen as they conclude it should be more widespread in stating that, "Scholars and practitioners can define a new role for public relations by helping organizations define their values, strategically communicate them, and fight for social justice causes" (Ciszek and Logan 125). The authors encourage organizations to commit to a CPA framework without the consideration of the broader impact this would have on stakeholders and shareholders.

The article did not discuss other ways the firm's signals may influence individuals. There is a potential for firms to model signaling behavior to individuals, encouraging them to signal their support for similar causes. Increased social advocacy could be beneficial or harmful for society, depending on the method and content of the signals. However, sources discussing individuals mirroring and forming habits as a result of corporate signaling habits are unavailable. While future studies should discuss the possibility, it is important to note how there may be social benefits resulting not only from increased positive dissensus but also the impact of regular corporate signals on individual habits.

Corporate virtue signaling through corporate social responsibility (CSR) also has the potential for positive gains. Lyon and Maxwell point out how corporations engaging in environmental CSR may lead to social gains by preempting legislation. They state,

> Preemptive self-regulation occurs during the development or politicization phase of the policy life cycle, and avoids the costly political process, thus offering the potential for welfare gains. When consumer organizing costs are high, firms may be able to preempt legislation with much less abatement than would have been imposed legislatively. Poorer environmental performance, however, must be weighed against the reductions in political costs when abatement is voluntary rather than mandatory. (Lyon and Maxwell 253)

This points to the potential for corporations acting socially responsible, even for their own purposes, can still be socially beneficial. Likewise, the authors draw in additional sources to assert that “if preemption occurs, both firms and consumers must be better off than if consumers had fought to impose legislation on the industry” (Lyon and Maxwell 253). Corporations who act in their own interest to avoid stricter legislation through preemption can result in a net social benefit presuming that organizing costs are significantly high. However, the authors assert that “overall, we find that there is no grand result showing that CSR is necessarily beneficial to society” (Lyon and Maxwell 252). While there can be small social gains through preemption, there is not yet evidence of significant social gains from the activity.

In line with the lack of concrete gains from signaling activities, Bebchuk and Tallarita published a follow-up to their original research regarding CEOs using stakeholder theory rhetoric as an uncredible virtue signal. In the statement released to the

Wall Street Journal, they state that their recent research "casts serious doubt on whether corporations are matching the talk with action" and that "whatever corporate leaders are trying to gain with stakeholder rhetoric, it isn't stakeholder protection" (Bebchuk and Tallarita, "Opinion"). Even the signals sent by proponents of stakeholder theory may not result in any real social benefit. This is a key finding, as it suggests companies who may appear well-intentioned and socially active could be using signals to insulate themselves from shareholder and even stakeholder criticism.

Examining The Corporate Financial Impact of Signaling

Virtue signaling provides a considerable avenue for businesses to impact their profits and public image, for better or for worse. Sending signals that align with their consumer base can appeal to consumers, increase group solidarity, and provide increased press exposure. It is common to see that "brand virtue signaling gains publicity in the form of press and social media coverage that will far exceed not only what the brand spent on advertising but also more than it would have been able to spend" (Berthon et al. 7). The opportunity for virtue signaling provides an increased risk-reward tradeoff due to its exposure and resonance with consumers.

In recent years, virtue signaling has been associated with some high-profile and successful marketing campaigns. When Nike launched its 2018 ad featuring Kaepernick, social opinion was divided but the positive response won out. While some people burned their Nike shoes in outrage,

> Others loved it, including much of the media, many Nike customers and, over time the stock market. There were reports of a 31% increase in 2018 online sales of Nike products over the previous year, and an estimate that the free media exposure was worth $43 million to the company (Sterling, 2018). Nike shares,

> after initially falling after the launch of the campaign, rose 36% in 2018 over 2017 (Reints, 2018), although marketing and finance scholars might dispute the causal link between the two events. (Berthon et al. 2)

While the causal link may be disputed, as other factors may have also contributed to Nike's financial success, the event is generally considered an example of virtue signaling paying off. Note how it was seen as costly and bold of Nike to do this, and how they fit the signal into their "Just Do It" slogan seamlessly. It was in line with their brand image and a bold statement many customers found admirable. The advertisement's target market resonance made it extremely successful, and it even gained additional attention the following year by winning the Creative Arts Emmys' award for outstanding commercial.

Likewise, Unilever's Dove Campaign for Real Beauty was considered a signaling success. There were reports that indicated the campaign "had a positive financial effect for the company" (Berthon et al. 6) and was well-received in general. Beginning in 2004, this campaign grew into a movement and the ideas of inclusive, internal, and complex female beauty still form the basis of the brand's image today. The Campaign for Real Beauty won multiple PR awards and is widely credited for Dove's growth and market appeal. Advocating for body-positive, diverse beauty ended up being a successful venture from a marketing and financial perspective. In fact, "Dove was acknowledged by the research firm Lander Associates as being one of the fastest growers in brand health over the past three years in 2006, adding $1.2 billion in value to the brand" (Berthon et al. 6). Having a message tied to the brand that deeply resonates socially, especially with Dove's target market of women, was a well-timed signal.

It is important to discuss that not all virtue signaling attempts end in success, instead, they can result in public scrutiny. Grappi succinctly explains that a “firm can establish a positive corporate image through positive CSR activities or, on the contrary, harm its reputation by failing to pursue effective CSR strategies” (Grappi et al. 1820). For example, Beyond Meat and Gillette’s virtue signaling attempts have had less favorable results than Nike and Unilever’s social advocacy (Berthon et al. 6). While Beyond Meat experienced short-term gains from health virtue signaling, these did not last as studies came out revealing the lack of comparative health benefits. The negative press surrounding the company paired with increased competition in the plant-based meat sector hurt the company’s position as a leader in the market. Similarly, Gillette’s attempt at virtue signaling fell short. The company’s attempt to signal virtue through an anti-toxic masculinity campaign distanced the brand from a portion of their customers with whom the signaling did not resonate. Beyond Meat and Gillette’s attempts to signal superiority through virtue signaling show that the practice does not necessarily benefit all brands. Instead, a brand’s signaling can alienate consumers if claims are considered misrepresentative or offensive.

It is important to note that signaling efforts also affect how investors and analysts see the firm. Hsu and her colleges’ research concluded that investors and analysts consider the performance of a company’s virtue signals as they assess corporate disclosures. Following the announcement of earnings forecasts, stock price reactions show that “only adverse CSR performance affects investors’ assessments of these corporate disclosures” but “both positive and adverse CSR performance affect analysts’ earnings forecast revisions in response to announcements of earnings and management earnings forecasts" (Hsu et al. 527). How much people trust and agree with these forecasts is affected by their opinion of the firm and its signals. Hsu attributes this affect to CSR serving as a "signal of management integrity and ethics and thus also indicative of firms' disclosure quality and financial performance" (Hsu et al. 527). This is an interesting assertion, as signals can determine how trustworthy a corporation is perceived in financial matters even when these same signals could serve as a distraction from maximizing earnings or hide underlying issues. As such, negative signals carry more weight in how companies are perceived.

Additionally, the research shows that firms with positive CSR performance do not exhibit higher levels of disclosure quality and earnings persistence but firms with adverse CSR performance exhibit lower levels of both measures, which mirrors investor reactions closer than analyst judgements. Corporations should consider how investors and analysts will react to their virtue signals. The article also states that "firms should refrain from negative CSR activities because even in the presence of positive CSR performance, adverse CSR performance can have a greater influence on stakeholders' judgments of firms' ethical culture and values" (Hsu et al. 528). Signals are important not only for public perception and management's self-assessments but also for investor and analyst reactions. Ineffective signals can have considerable adverse effects on a company, so signaling efforts must be carefully approached to avoid negative consequences.

When Virtue Signaling Works

Studies on the corporate effectiveness of virtue signaling, through corporate social responsibility and political advocacy, show that a firm must be consistent and strategic about its approach to signaling. A long-term approach included within the brand vision, consistently acted upon, and using indirect signals is the most beneficial to brand image and corporate success.

In “The virtuous brand: The perils and promises of brand virtue signaling” Berthon and fellow authors argue that virtue signaling must be approached with a long-term strategy to sustainably positively impact a business. The authors conclude that “virtue signaling works when (1) the signals are a genuine reflection of the values and ideas of a company, (2) the signals are costly to ensure honesty, and (3) there is a meta purpose to pass on or disseminate the values/ideas being signaled over and above profit or survival” (Berthon et al. 11). Berthon holds that while short-term gains may be made from certain signaling activities if the signals are not consistent or upheld long-term by the organization then the signals may backfire on the company. In order to meet these requirements, an organization must have causes they can credibly support as part of a long-term organizational vision. This long-term vision allows the firm to better mirror the more unchangeable character of a person, which is considered a requirement of true virtue, and thereby mimic virtue through signals. While the firm can only signal virtue, rather than attain it, establishing a consistent organizational character is the most effective means of mimicking virtue and receiving beneficial results from the practice.

The article “Signaling Virtue: Does Firm Corporate Social Performance Trajectory Moderate the Social Performance–Financial Performance Relationship?” examines factors that drive some firms to experience greater returns from their social efforts. This study examines the impact of a firm's social reputation on the relationship between corporate social performance (CSP) and financial performance in the current period. The study demonstrated that “firms with either a history of growth in negative CSP, a propensity toward increasing negative CSP, or a more inconsistent history of positive or negative CSP, experience decreased returns from current period investments in CSP” (Brower et al. 86). This displays the importance of the company’s past social responses and current trajectory in determining their impact. A firm must be mindful of the context surrounding their past social activity to understand whether the signals will be perceived well.

There can be significant corporate effects resulting from the context of past social signals. The authors’ “findings suggest that a single reversal in a firm's historical CSP trajectory in either positive or negative CSP cancels out > 40% of the gain that it could experience as a result of increasing positive CSP, and that a one-unit increase in either negative CSP displacement or propensity negates around 20% of that gain” so “a firm expecting positive returns from current-period CSP would benefit greatly from understanding the impact of its historical trajectory of CSP actions on stakeholder assessments of its reputation” (Brower et al. 93). It is important for a firm to understand its history of social engagement before entering the public sphere to understand how its social position may influence its financial one. How the public perceives a firm’s signals can be critical to its success.

In another study, it was discovered that signals unrelated to the business itself can be beneficial to the company. The article “The Benefit of Virtue Signaling: Corporate Sleight-of-Hand Positively Influences Consumers’ Judgments About ‘Social License to Operate’” prompts the examination of what strategy of corporate virtue signaling truly positively influences public perception and board approval. Although not directly tied to profits, the measurable effects in other areas of company value (goodwill, reputation, etc.) are worth noting. Having this increased social license to operate is key to allowing virtue signals to justify management's future corporate social irresponsibility (CSiR). Ormiston and Wong's research suggests this can be a danger for firms because "CSR is positively related to CSiR and that the relationship is stronger for leaders who are high on moral identity symbolization" (Ormiston and Wong 888). As such, the corporations and their leaders may discount their irresponsible actions, which harm stakeholders or shareholders, because of their aid in the past. Gray's research suggests that stakeholders are similarly more accepting of the responsibility interspersed with irresponsibility strategy.

When a firm's social license (stakeholders' broad acceptance of a company's activities) is at stake, companies are compelled to address sustainability challenges in one of two ways. They can be managed directly or indirectly, with the latter being surprisingly effective. Direct means are "complying with regulatory and social norms surrounding informed consent before a company's operations begin" or "meaningfully addressing concerns about a company's activities after they have been initiated" (Gray et al. 2). The authors define indirect signaling as "acts of corporate sleight-of-hand" wherein "companies attempt to attract stakeholder and customer support by being good citizens in areas that are unrelated—or, at best, distal—to where their primary operations unfold" (Gray et al. 2). As such, there can be corporate gains from indirectly signaling to the public in a way that may distract them from the business's primary operations.

This indirect approach is favorable because of the important role judgmental heuristics and individual value orientations play when consumers form impressions about corporate sustainability. The study concluded “Compared to a business-as usual control condition, and across three company contexts, consumers provided favorable ratings of reputation, and were willing to grant social license, when companies responded indirectly to a sustainability challenge” (Gray et al. 1). The best-received virtue signals are not direct or truly upstanding best practices, instead, they are indirect and unrelated to the business itself. The best signals are distracting mirages, as the company need not truly improve itself but rather tie itself socially to a more revered cause.

Conclusion to the Utility of Virtue Signaling

Virtue signaling can be a double-edged sword, able to benefit or harm a corporation depending on the signal and its context, yet its effect on society at large is more ambiguous. Society can benefit from corporations preempting legislation and participating in social discourse through values-driven advocacy, but more research is needed to determine if there can be significant social gains from this practice. While there is potential for signaling to foster corporate and societal gains, this potential is not always realized. Businesses which decide to signal their commitment to a cause must commit to a long-term strategy to genuinely support it if the business desires consistent gains from engaging in signaling. Likewise, it is wise for firms to consider indirect means of addressing sustainability challenges to gain more social license, which may aid the firm but enable poor societal side effects. Together, this makes for a situation where firms with consistent, long-term, and indirect in the signals stand to gain the most. However, a company may use the signaled commitment to various causes or unspecified stakeholders to further insulate themselves from shareholder and stakeholder criticism rather than to benefit society.

CHAPTER FIVE

Conclusion

Virtue signaling can be useful to a company; however, beyond utility, a deep hollowness settles. Holding corporations responsible for virtue is beyond their domain. Though signals can be useful for both the cause and the firm itself, corporate displays of charity are not the fruits of true virtue. Instead, American society’s obsession with utility and external success may be embodied by corporate virtue signaling. Even so, signaling can set an example by which people can build habits that reinforce virtue. This fits into Aristotle's assertion that habit is vital in forming the character and soul by developing moral virtue. The question remains whether the habit should be formed since, as the capitalistic spirit has taken root, there is not much hope that it will evolve beyond a signal or encourage true virtue. Instead, corporate signaling may encourage further facades and half-truths. A genuine restoration of society’s understanding of internal wealth is necessary to evolve beyond mere signals and into true virtue.

Corporate virtue signaling embodies modern society's deep confusion of true virtue and disoriented focus on measurable utility rather than internal value. While the concept of corporate social responsibility began as a calling for organizations to use their legal citizenship to be good citizens, it incentivized virtue signaling in practice. Organizations cannot create more than this outward display because they lack persistent thought and soul. Companies use signals mimicking virtue to capitalize on public perception. However, the shortfall is not entirely attributable to firms. Society only praises virtue's external facade, which points to a deep-rooted confusion in valuing internal and superficial pursuits. Thus, the fault and fallacy of corporate virtue lie within the society at large rather than the company. Much is lost when a company is expected to uphold the individual's virtue rather than the individual expected and inspired to champion their own.

Since virtuosity cannot justify the corporate pursuit of signaling, various corporate frameworks were analyzed to contextualize the firm’s efforts. From the perspective that firms exist to maximize shareholder wealth, signaling could be justified as a marketing or PR effort to raise sales. If firms exist to serve all stakeholders—including shareholders, society, and others—then signaling could be justified by positive social impacts along with any benefits provided to shareholders. As such, the usefulness of corporate virtue signals to benefit the firm and society was analyzed.

Despite the lack of underlying virtue, corporate virtue signaling may be justified through the utility it provides to firms and society—however, this impact is more challenging to examine. Case by case situations differ regarding whether the practice truly benefits the firm, with the general consensus being that successful signals are part of a long-term strategy backing a cause that resonates with consumers. Societal impact is even more nuanced, and therefore not as accessible to analyze. While there is potential for moderate social benefits, it is possible that the good done is meant to build a balance of social license from which future questionable behavior can be justified. Current research suggests that if certain signaling efforts provide social benefits, they are not particularly large or are unable to be adequately quantified.

Future research should examine how individuals are influenced by corporate virtue signals and study how society’s expectations of individual and corporate responsibility continue to shift over time. Similarly, more research quantifying and analyzing the societal impact of various corporate virtue signaling efforts would encourage a better understanding of the phenomena and whether it should continue to be expected and encouraged. As corporate virtue signaling continues to grow and become an expected aspect of modern corporations, a careful analysis of the costs and benefits could determine how to treat the phenomena going forward. Regardless of the underlying utility, it is important to question whether virtue and its signals should be demanded of organizations or if these expectations are most appropriate for individual people, executives alongside all members of society.

Bibliography

Aristotle. *The Nicomachean Ethics*. Translated by J. O. Urmson et al., Oxford University Press, 1980.

Baldwin, Carliss Y., et al. “M&A Legal Context: Basic Framework for Corporate Governance.” Harvard Business Publishing Education, 24 June 2003, https://hbsp.harvard.edu/product/803200-PDF-ENG.

Bebchuk, Lucian A., and Roberto Tallarita. “Opinion | 'Stakeholder' Talk Proves Empty Again.” The Wall Street Journal, Dow Jones & Company, 18 Aug. 2021, https://www.wsj.com/articles/sbetakeholder-capitalism-esg-business-roundtable-diversity-and-inclusion-green-washing-11629313759.

Bebchuk, Lucian A., and Roberto Tallarita. “The Illusory Promise of Stakeholder Governance.” Cornell Law Review, Cornell Law Review, 1 Dec. 2020, https://live-cornell-law-review.pantheonsite.io/wp-content/uploads/2021/02/The-Illusory-Promise-of-Stakeholder-Governance.pdf.

Berthon, Pierre R., et al. “The Virtuous Brand: The Perils and Promises of Brand Virtue Signaling.” Business Horizons, Elsevier, 27 Oct. 2021, https://www.sciencedirect.com/science/article/pii/S0007681321002007.

Brower, Jacob, et al. “Signaling Virtue: Does Firm Corporate Social Performance Trajectory Moderate the Social Performance–financial Performance Relationship?” Journal of Business Research, vol. 81, Elsevier Inc, 2017, pp. 86–95, https://doi.org/10.1016/j.jbusres.2017.08.013.

“Business Roundtable Redefines the Purpose of a Corporation to Promote 'an Economy That Serves All Americans'.” Business Roundtable, 19 Aug. 2019, https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

Ciszek, Erica, and Nneka Logan. “Challenging the Dialogic Promise: How Ben & Jerry’s Support for Black Lives Matter Fosters Dissensus on Social Media.” Journal of Public Relations Research, vol. 30, no. 3, Routledge, 2018, pp. 115–27, https://doi.org/10.1080/1062726X.2018.1498342.

Denis, Diane. “The Case for Maximizing Long-Run Shareholder Value.” Journal of Applied Corporate Finance, vol. 31, no. 3, 2019, pp. 81–89, doi:10.1111/jacf.12362.

Eggleton, Lauren. “The Corporations and the Culture War.” *The Wall Street Journal*, Dow Jones & Company, 23 July 2019, www.wsj.com/articles/the-corporations-and-the-culture-war-11563923433.

Friedman, Milton, et al. “Rethinking the Social Responsibility of Business.” Reason, Reason, 21 Aug. 2020, https://reason.com/2005/10/01/rethinking-the-social-responsi-2/.

Grappi, Silvia, et al. “Consumer Response to Corporate Irresponsible Behavior: Moral Emotions and Virtues.” Journal of Business Research, Elsevier, 27 Feb. 2013, https://www.sciencedirect.com/science/article/pii/S014829631300026X.

Gray, Sara Goto, et al. “The Benefit of Virtue Signaling: Corporate Sleight-of-Hand Positively Influences Consumers’ Judgments About ‘social License to Operate.’” Journal of Environmental Management, vol. 260, Elsevier Ltd, 2020, pp. 110047–110047, https://doi.org/10.1016/j.jenvman.2019.110047.

Hsu, Audrey, et al. “Corporate Social Responsibility and Corporate Disclosures: An Investigation of Investors’ and Analysts’ Perceptions.” Journal of Business Ethics, vol. 158, no. 2, Springer Netherlands, Aug. 2019, pp. 507–34, doi:10.1007/s10551-017-3767-0.

Lyon, Thomas P., and John W. Maxwell. *Corporate Social Responsibility and the Environment: A Theoretical Perspective*, 11 July 2008, https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.986.5850&rep=rep1&type=pdf.

MacIntyre, Alasdair. After Virtue: A Study in Moral Theory, Third Edition, University of Notre Dame Press, 2007. ProQuest Ebook Central, http://ebookcentral.proquest.com/lib/bayloru/detail.action?docID=4454360.

NIV Bible. Biblica, 2011. https://www.bible.com/bible/111/MAT.6.NIV.

“One Year Later: Purpose of a Corporation.” Business Roundtable , 2020, https://purpose.businessroundtable.org/.

Ormiston, M.E. and Wong, E.M. (2013), License to Ill: The Effects of Corporate Social Responsibility and CEO Moral Identity on Corporate Social Irresponsibility. Personnel Psychology, 66: 861-893. https://doi.org/10.1111/peps.12029

Smith, Adam. An Inquiry into the Nature and Causes of *the Wealth of Nations*. Edited by S.M.

Smith, Adam. The Theory of Moral Sentiments, Dover Publications, 2012. ProQuest Ebook Central, http://ebookcentral.proquest.com/lib/bayloru/detail.action?docID=1889271.

Steenkamp JB. (2017) Corporate Social Responsibility. In: Global Brand Strategy. Palgrave Macmillan, London. https://doi.org/10.1057/978-1-349-94994-6_8

Tocqueville, Alexis De. *Democracy In America*. Translated by Stephen D. Grant, Hackett Publishing Company, Inc., 2000.

Weber, Max. *The Protestant Ethic and the "Spirit" of Capitalism and Other Writings*. Penguin Group, 2002.