Corporate Social Responsibility and Business Performance

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ABSTRACT

To obtain a competitive advantage is a priority for firms competing in the complex global environment of today. Currently, it is thought that these advantages can be linked to the adoption of socially responsible behavior. The goal of this paper is to examine whether business performance is affected by the adoption of practices included under the term Corporate Social Responsibility (CSR). To achieve this goal, we analyze the relation between CSR and certain accounting indicators and study whether there exist significant differences in performance indicators between Norwegian and Swedish firms that have adopted CSR and others that have not. The effects of compliance with the requirements of CSR were determined on the basis of firms included in the Dow Jones Sustainability Index (DJSI), and the specific accounting indicators were applied to measure performance. We find that the adoption of CSR has a short-term negative impact on profit, but a positive impact on revenue.

INTRODUCTION

Many investors consider Corporate Social Responsibility (CSR) a crucial value for success. CSR are commonly grouped into economic, social and environmental areas (the "triple bottom line"). The idea underlying the Dow Jones Sustainability (DJSI) is that sustainability practices constitute a potential element for long-term value creation from which shareholders will benefit. Thus, the development of the DJSI is result of the interest from investors. RobecoSAM has developed the DJSI to evaluate and rank companies that includes a number of elements, such as the evaluation of intangible assets, development of human capital, organizational issues, strategic plans, corporate governance and investor relations.

METHODOLOGY

We compiled accounting information published by the sample firms. Our sample included all Norwegian and Swedish firms listed on the stock exchange in its respective country, where a subsample of these firms was also listed in DJSI. The study covers the period from 2001 to 2014. The financial data were obtained from the Bloomberg Terminal database, and the DJSI lists were obtained from the developer and publisher of these lists, RobecoSAM. To analyze the data, we performed OLS regression analysis using the statistical analysis software STATA.

In developing our research, we selected a series of accounting variables to measure a firm's performance, focusing on analyzing the profit before taxes (PBT), profit after taxes (PAT) and total revenue (REV). We also considered other variables such as country (COUNTRY), assets (SIZE) and debt to assets (RISK). These are all variables that are commonly used to measure performance (Lopez et al., 2007).

TABLE I

Variable definitions for regression equations

PBT	Profit/losses before taxes
PAT	Profit/losses after taxes
REV	Revenue
CSR	Dummy variable, 1 if it belongs to DJSI
COUNTRY	Dummy variable, 1 is Norway
SIZE	Assets
RISK	Risk (debt/assets)

RESULTS

The Impact of Corporate Social Responsibility (CSR) on Profit Before Taxes (PBT)

$$\mathbf{PBT} = b_1 + b_2\mathbf{REV} + b_3\mathbf{CSR} + b_4\mathbf{COUNTRY} + b_5\mathbf{SIZE} + b_6\mathbf{RISK} + e$$

TABLE II

Regression coefficients (in Million USD) and statistics

Independent and control variables	Dependent variable PBT
REV	0.182 (0.000)*
CSR	-849.737 (0.000)*
COUNTRY	-2.282 (0.787)
SIZE	0.0001 (0.000)*
RISK	-8.523 (0.409)
Adjusted R Square	0.674
F-Statistic	3983.06
Probability	0.000
* P ≤ 0.05	

The Impact of Corporate Social Responsibility (CSR) on Profit After Taxes (PAT)

$$\mathbf{PAT} = b_1 + b_2\mathbf{REV} + b_3\mathbf{CSR} + b_4\mathbf{COUNTRY} + b_5\mathbf{SIZE} + b_6\mathbf{RISK} + e$$

TABLE III

Regression coefficients (in Million USD) and statistics

Independent and control variables	Dependent variable PAT
REV	0.200 (0.000)*
CSR	-1445.070 (0.000)*
COUNTRY	5.973 (0.640)
SIZE	0.004 (0.000)*
RISK	-99.005 (0.457)
Adjusted R Square	0.539
F-Statistic	2164
Probability	0.000
* P ≤ 0.05	

The Impact of Corporate Social Responsibility (CSR) on Revenue (REV)

$$\mathbf{REV} = b_1 + b_2\mathbf{PAT} + b_3\mathbf{CSR} + b_4\mathbf{COUNTRY} + b_5\mathbf{SIZE} + b_6\mathbf{RISK} + e$$

TABLE IV

Regression coefficients (in Million USD) and statistics

Independent and control variables	Dependent variable REV
PAT	2.368 (0.000)*
CSR	9365.240 (0.000)*
COUNTRY	69.990 (0.111)
SIZE	0.026 (0.000)*
RISK	206.109 (0.653)
Adjusted R Square	0.644
F-Statistic	3337.14
Probability	0.000
* P ≤ 0.05	

CONCLUSION

Our results seem to suggest that the inclusion in the DJSI has negative impact on both profit before and after taxes. This finding is consistent with other similar studies such as Lopez et al. (2007). On the other hand, companies that are listed in the DJSI have higher revenues. This implies that the implementation of CSR has positive impact on sales. This increase in sales, however, is not large enough to offset the costs incurred by firms when introducing their CSR practices – at least not in the short run. The introduction of a sustainable business model involves a cost or reallocation of resources that negatively affects the firms' performance. This involves costs such as training, product quality and safety. In the time frame considered, our results show that the expenses are greater than the profits that these measures generate. In the long-term, it is possible that initial investment costs will be fully amortized, giving firms that have implemented a sustainable business strategy an advantage. Further research is needed in order to validate this claim.