Applied Economics ›
Volume 46, 2014 - Issue 27

Original Articles

CSR and financial performance: complementarity between environmental, social and business behaviours

Sandra Cavaco & Patricia Crifo

Pages 3323-3338 | Published online: 11 Jun 2014

Cite this article https://doi.org/10.1080/00036846.2014.927572 Check for updates

Abstract

This article analyses the interactions between various dimensions of corporate social responsibility (CSR) that mediate the relationship between CSR and financial performance. We hypothesize that the absence of consensus in the empirical literature on the CSR–financial performance relationship may be explained by the existence of synergies (complementarity) and trade-offs (substitutability) between the different CSR components. We investigate such relationship using a final unbalanced panel sample of 1094 observations (around 300 firms per year) from 15 countries over the 2002–2007 period. Our results show that responsible behaviours towards employees (human resources dimension) and towards customers and suppliers (business behaviour dimension) appear as complementary inputs of financial performance, indicating mutual benefits and less conflict between those stakeholders. Conversely, responsible behaviours towards customers and suppliers and towards the environment appear as

substitutable inputs of financial performance, suggesting more conflict between or over-investment towards those stakeholders.

Keywords:

CSR financial performance complementarity substitutability stakeholders

JEL Classification:

M14 L21 C33

Acknowledgements

We thank Kathryn Shaw, Pierre Mohnen, Rodolphe Durand, Eric Strobl, Joseph Lanfranchi, Isabelle Mejean and Vanina Forget for their helpful advice and Abel Lucena for his help on the empirical analysis. We also thank participants at the following conferences: Alliance for Research on Corporate Sustainability (Wharton PA 2011), INSEAD (2011), CSR Mines Paristech (Paris 2011), Coinvest (Lisbon 2010), Comparative Analysis of Enterprises Data (Tokyo 2009), International Conference on Quality Management and Environment (ENSAE 2009), Nancy II, Paris II, Paris West, CEE and Ecole Polytechnique.

Of course, we remain responsible for all residual errors or omissions. We are grateful to Vigeo for granting us access to their data. Patricia Crifo gratefully acknowledges support of the chair FDIR (TSE – Ecole Polytechnique).

Funding

This work was supported by the Chair Finance Durable et Investissement Responsable (Toulouse School of Economics – Ecole Polytechnique).

Notes

[1] Orbis information is standardized given the differences in accounting practices across countries.

[2] In complementary estimations, which are note reported here but are available upon request, we follow Wintoki et al. (2012)'s methodology to run series of tests involving OLS regressions of current levels of CSR scores and other firm-specific variables and changes in these levels on past performance and historical values of the firm-specific variables. Such tests show that CSR is in fact dynamically endogenous since CSR is determined by past financial performance.

[3] Estimations were carried out using the Stata module Xtabond2 developed by D. Roodman (2006). System GMM was implemented as a one-step estimator with Windmeijer-corrected cluster-robust errors.

[4] For the aggregate measure of CSR (CSR global), only the system GMM estimations are reported but additional estimations for OLS and fixed effects models are available upon request.

[5] As quoted by Belu and Manescu (2013), it is worth controlling for unobserved firm heterogeneity when modelling CSR and financial performance, since when it is not accounted for, inexistent positive or negative relationships between the two might emerge (see Baron, 2009).

[6] To examine this issue, we have conducted complementary regressions, which are not reported here but available upon request, in which we estimate the impact of CSR on the ROA and the Tobin's Q by separating controversial industries from the others (considering the small size of our samples only static fixed-effects models could be run). Our results show that CSR commitment is positively associated with financial performance in controversial industries, although their products might be detrimental to the environment, human beings and society. Managers of firms in controversial industries may in fact use CSR as a means to enhance their reputation.