CORPORATE ENVIRONMENTAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: AN EMPIRICAL EXAMINATION

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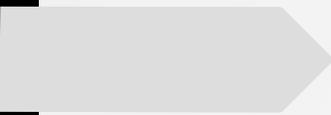
Introduction

- Corporate environmental responsiblity (CER) is a subtheme of Corporate social responsibility (CSR).

- CSR is a holistic concept that embodies responsible action towards a variety of stakeholders, e.g.:

- - customer responsibility

- - employee responsibility

- - societal responsibility

- - environmental responsibility

- - etc.

Introduction

- Despite enduring enquiry, the relationship between CSR and financial performance (CFP) remains controversial along three perspectives:
  - Empirical results concerning the nature of the relationship range from positive to negative
  - The causality of the relationship is still unclear.
  - CSR involves appeasing a range of heterogeneous stakeholder groups which evince different potential to affect financial performance.

- Aim: provide a deeper insight into the reciprocal nature of the CSR-CFP relationship by disentangling the perspectives of time and stakeholder heterogeneity.

Theoretical background

▸ Two opposing rationales concerning the CSR–CFP relationship

Social impact hypothesis

Trade-off hypothesis

Stakeholder heterogeneity

Social impact hypothesis	Trade-off hypothesis

**Employees
Customers
Competitors**

**Transactional
stakeholders**

**Non-transactional
stakeholders**

NGOs
Society
Natural environment

Natural environment
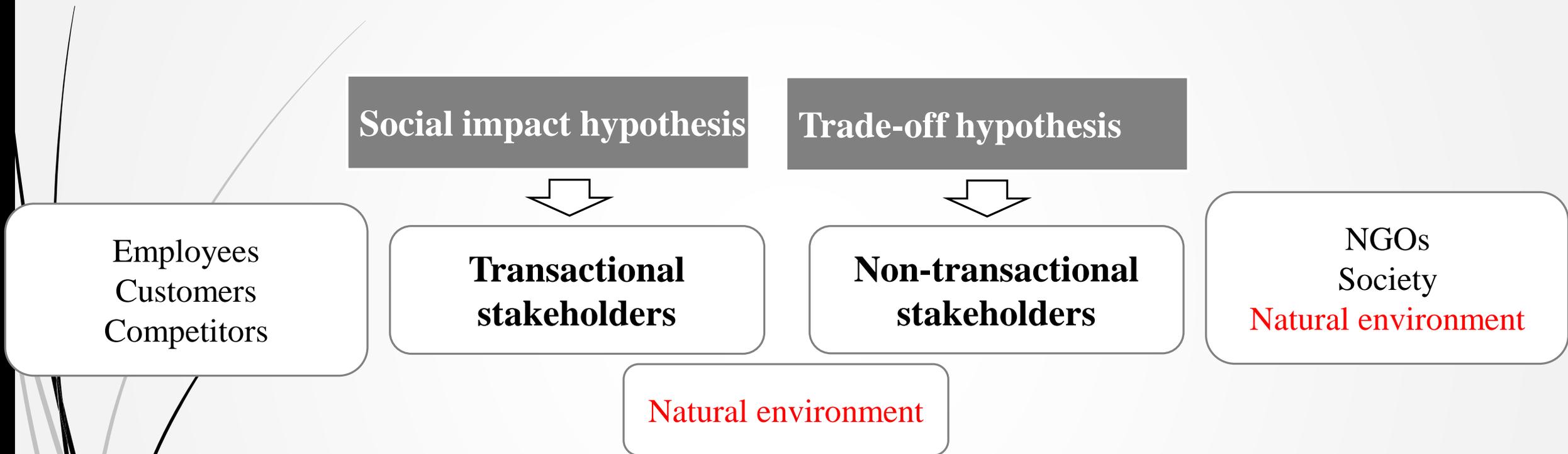
➡ Spillover effects: CSR activity towards one stakeholder group can be observed by other stakeholder groups

Conceptual model and hypotheses

Overall CSR model
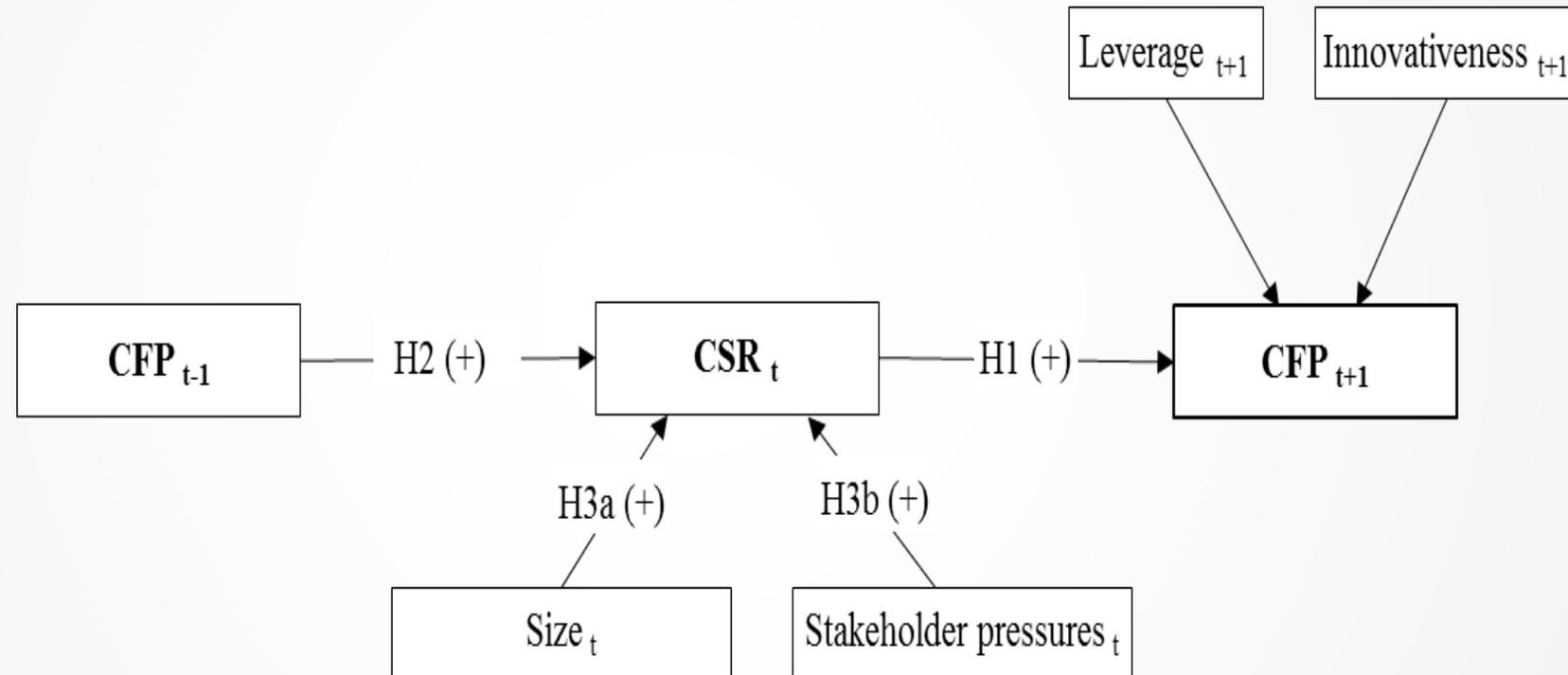
Stakeholder group level models
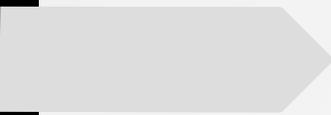
Methodology

- **Triangulation of quantitative and qualitative mathods**
- **Quantitative analysis**
  - Combination of data collected with questionnaire survey and data from financial statements
- **Sample**
  - 124 large and medium sized companies from Croatia
- **Data analysis**
  - PLS path modelling
- **Qualitative analysis**
  - 6 interviews

Results – overall model
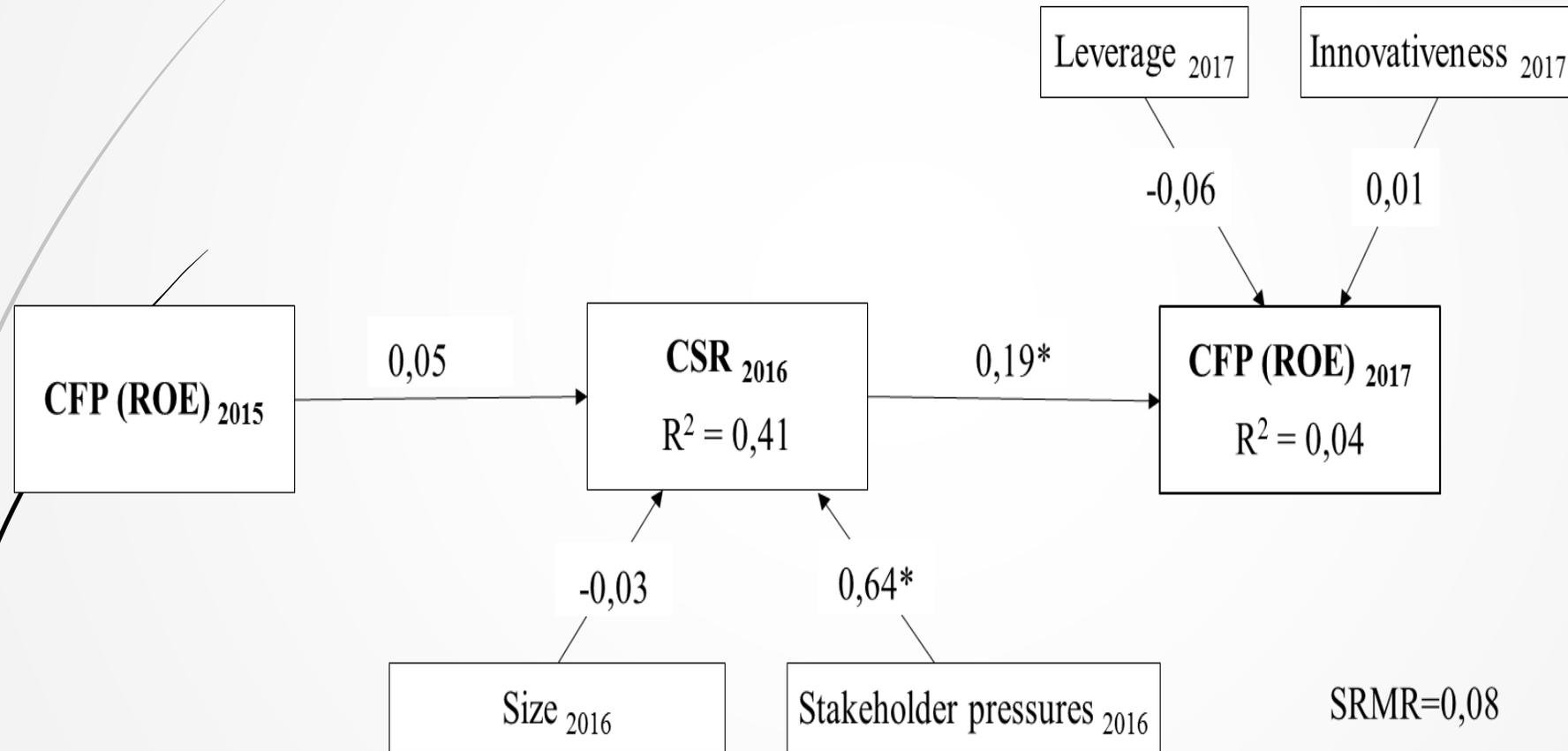
***p<0,01; **p<0,05; *p<0,1

Results – stakeholder group level models

| Relationship	Path coefficients and significance					
	Sub-models (stakeholders)					
	EMP	CUS	COM	NGOs	SOC	NE
CSR → ROE_2017	0,16**	0,17*	0,16*	0,16**	0,15***	0,22**
ROE_2015 → CSR	0,00	0,11	0,02	0,05	0,09	0,02
Size → CSR	-0,13***	-0,09	-0,18**	0,11	0,06	0,01
Stakeholder pressure → CSR	0,60***	0,47***	0,50***	0,64***	0,55***	0,57***
Leverage → ROE_2017	-0,07	-0,07	-0,08	-0,08	-0,06	-0,05
Innovativeness → ROE_2017	0,02	-0,01	0,01	0,02	0,01	0,00

Legend:
CSR: corporate social responsibility, EMP: employees, CUS: customers, SOC: society, COM: competitors, NGOs: non-governmental organizations, NE: natural environment, ROE: return on equity

***p<0,01; **p<0,05; *p<0,1

Leverage 2017   Innovativeness 2017

-0,06   0,01

CFP (ROE) 2015   0,05   CSR 2016 $R^2 = 0,41$ 0,19*   CFP (ROE) 2017 $R^2 = 0,04$

-0,03   0,64*

Size 2016   Stakeholder pressures 2016   SRMR=0,08
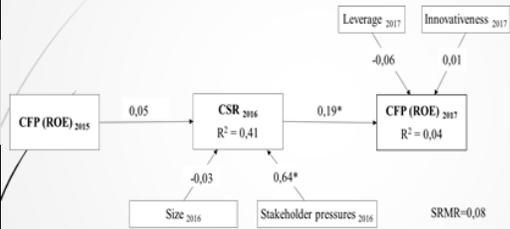
Additional analyses

- Alternative model specification

- construct CFP t-1 (past CFP) is replaced by CFP t (current CFP).

- RESULTS OVERALL MODEL

- The path from CFP t to CSR t → statistically significant.

- RESULTS STAKEHOLDER GROUP LEVEL MODELS

- Statistically significant positive relationship between CFP t and CSR t for:

- - employees

- - customers

- - society.
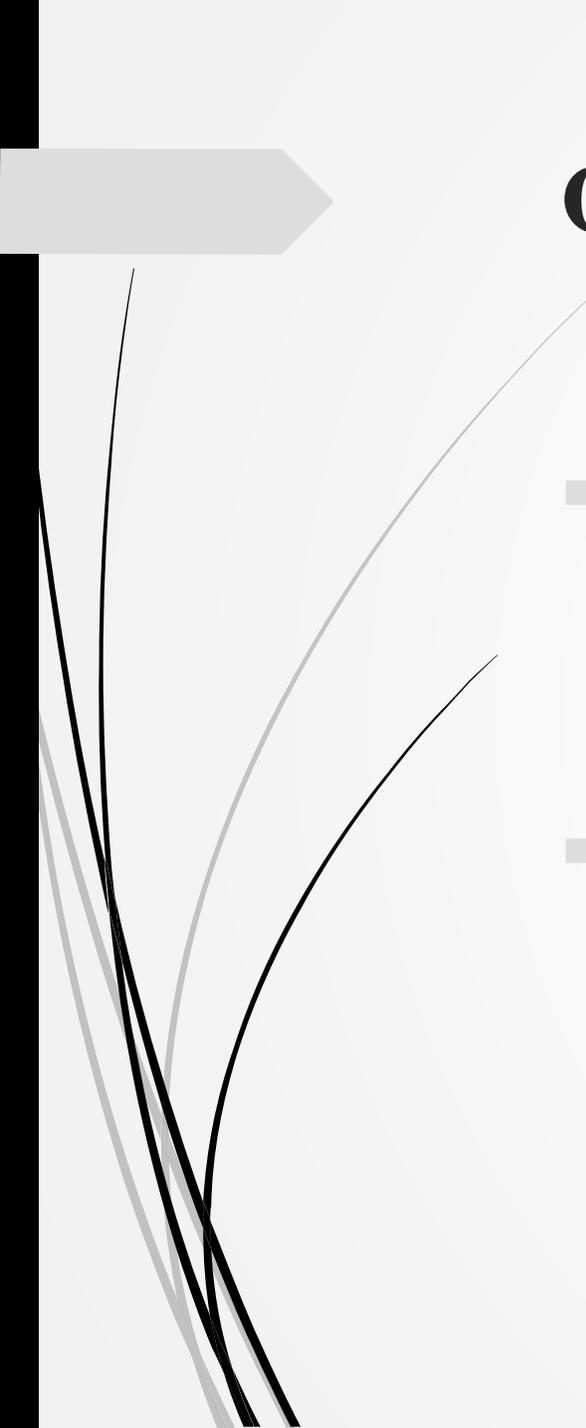
Qualitative analysis

➡ „CSR activities do not cause better CFP directly, but indirectly through increased trust of stakeholders (employees, customers, etc.)".

➡ „More available financial resources (i.e. higher profitability), equals more money for CSR activities"

Discussion and conclusion

- OVERALL CSR

- Concerning the time/causality perspective, we detect a positive time lagged effect of overall CSR on CFP in quantitative and qualitative analysis.

- Equivocal evidence concerning the effect of CFP on overall CSR (time and method wise).

- STAKEHOLDER HETEROGENEITY

- Positive time lagged effect of stakeholder group oriented responsibility (Including CER) on CFP observed for all 6 stakeholder groups appraised (spillover effects)

- Equivocal evidence concerning the effect of CFP on overall CSR (time and method wise).

- Causality remains unclear.