Linking corporate social responsibility and financial performance in Spanish firms

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Abstract: This study focuses on the effect of Corporate Social Responsibility (CSR) initiatives on financial performance, using the information disclosed by companies on their websites. The final sample is made up of the 122 companies listed on the Madrid Stock Exchange (Spain). The empirical analysis entailed two phases: an analysis of the differences among the companies’ Financial Performance (FP) depending on their CSR strategy, and the use of a hierarchical cluster analysis and a multiple linear regression in order to explain the effect of CSR practices on corporate performance. The results of the analyses were significant and in the direction hypothesised. That is, CSR improves financial performance and, when considering the intangible components of CSR, the relationship is stronger for the company’s long-term performance than for its short-term performance.

Keywords: CSR; corporate social responsibility; financial performance; intangible resources; stakeholder theory; market-to-book ratio.


Biographical notes: Rosa María Muñoz is currently a Professor in the Faculty of Law and Social Sciences of Ciudad Real (Castilla-La Mancha University, Spain) where she works in the Management Department. She attained a degree in Administration and Business Management in 1991 and worked as the Managing Director of the Spanish Red Cross during 1992 and 1993. She attained a PhD in Economy in 2000. She has published several articles in specialised journals like the International Journal of Human Resource Management, Universia Business Review, Proceedings of Rijeka Faculty of Economics and Journal of Economics and Business. Her research mainly focuses on corporate social responsibility and human resource strategy.

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1 Introduction

In the past few decades, Corporate Social Responsibility (CSR) has gained a growing research and practitioner attention. This has been conditioned by such factors such as the conception of the negative outcomes of globalisation, relevance of cooperation and value transformation in nowadays society. However, despite its popularity, the concept still lacks a universally accepted definition (Matten and Moon, 2008).

According to World Business Council for Sustainable Development (WBCSD, 1999), CSR is an organisation’s commitment to a discretionary behaviour that leads to economic development and contributes to the welfare of its employees, local community and society at large.

However, one may wonder whether it pays to be morally good and behave in a discretionary manner (Buciuniene and Kazlauskaite, 2012). This issue is one of the oldest philosophical dilemmas. The discussion was initiated by Levitt (1958), who raised serious concerns about CSR dangers. The author claimed that a clear distinction should be made between the government’s and businesses’ activities and responsibilities. Companies should recognise the government’s functions and consider that, as profit making is the major goal of a business, its resources should not be utilised for non-primary activities. Friedman’s (1970) agency theory also supports the idea that CSR refers merely to the firm’s obligation to make maximum profit in compliance with the laws and minimal ethical restrictions. Besides, the utilisation of corporate resources for non-commercial activities may have a negative effect on the shareholder value. It is the government and the individual who should take on social responsibility, instead of forcing it onto business. Later, Freeman (2004) in his stakeholder theory proposed that to be recognised as socially responsible a company should take into consideration the interests of its multiple stakeholders as they all have an impact on organisational performance outcomes. In relation to the priori assumption that an organisation cannot simultaneously pursue economic and social goals, Orlitzky and Swanson (2006) argue that there is a potential for pursuing these two seemingly incompatible goals in tandem.

The research examining the relationship between CSR and Financial Performance (FP) dates back to the early 1970s. At least a dozen reviews and meta-analyses exist. Most studies show a positive relationship between both variables (63%); 15% of studies report a negative relationship and 22% report a neutral or mixed relationship (Peloza,
Margolis et al. (2008) and Orlitzky et al. (2003) have both obtained similar findings and support a generally positive correlation between both variables. Findings of a large-scale longitudinal study also demonstrated a statistically significant positive relationship between financial outcomes and CSR (Orlitzky, 2005). Besides, the results showed that CSR can be both a cause and an effect of financial outcomes. It contributes to the gaining of a competitive advantage through the development of an image and reputation and stimulating changes in organisational values and processes (Vilanova et al., 2009). Van Beurden and Gossling’s (2008) meta-analysis of the publications on the relationship between CSR and FP states that ‘good ethics is good business’.

Most empirical studies on the link between CSR and FP tend to be focused on the short-term perspective. Here, we also wish to study this link over a long-term perspective. According to Gardberg and Fombrun (2006) or Godfrey (2005), measuring this link by estimating the short-term FP can be inappropriate. Indeed, some authors have shown the long-term advantages of CSR, notably through the creation of intangible assets (Fombrun et al., 2000; Godfrey et al., 2009). Following Ducassy (2013), we should not study the creation of value strictly speaking but the preservation of value.

In order to verify these findings, this paper focuses on analysing the CSR practices implemented by Spanish companies and the relationship between these practices and corporate performance. A study of Spanish enterprises is interesting because Spain forms part of a group of European countries with quite similar development and cultural characteristics. A growing body of evidence suggests that cultural differences, associated with several countries and regions, affect CSR development (Muller-Rommel, 1989; Jamali and Mirshak, 2007; Prado et al., 2008). Cultural factors may help to explain differences in environmental decisions, the strength of green politics and demands for enterprises to act in a socially responsible manner. Bearing in mind the issue being dealt with in this paper, we should stress that Spain is a country whose CSR ranks behind that of others such as the UK and the USA.

This general aim can be specified in the following objectives:

- To describe the behaviour of large Spanish companies in relation to their CSR.
- To determine whether the companies’ CSR practices have any influence on their financial performance and what the signs of this influence are.
- To test whether that possible influence is short-term or long-term. That is, effects on income-related figures, taking as a reference profitability factors such as return on assets or effects on intangible elements of the company (which can be observed through the market-to-book ratio).

We have structured the paper as follows: we first review the debate concerning the link between CSR and FP; we then develop a set of hypotheses, present the methodology, the measurement of the variables and an empirical analysis and finally, we present the principal results and the main conclusions of this research.

2 Corporate social responsibility

CSR occupies a prominent place in today’s socially conscious market environment. Companies are devoting substantial resources to social initiatives ranging from community outreach and environmental protection to socially responsible business
practices (Marín et al., 2012). CSR includes philosophical and normative issues related to the role of business in society (Maignan et al., 1999). Carroll (1979) identifies four types of corporate responsibilities: economic, legal, ethical and discretionary. Economic responsibilities include to be productive, to be profitable and to meet consumption needs. Legal responsibilities imply that companies must fulfil their economic mission within the framework of legal requirements. Ethical responsibilities require that firms abide by moral rules that define appropriate social behaviours. Discretionary responsibilities reflect the public’s desire for enterprises to be involved in the betterment of society. Considering this classification, Maignan et al. (1999) define CSR as the degree to which companies assume economic, legal, ethical and discretionary responsibilities towards their stakeholders.

McWilliams et al. (2006) define CSR as an organisation’s disinterested and voluntary engagement into activities leading to the attainment of some social good. Thus, CSR encompasses voluntary organisational commitment to further the well-being of its employees and society at large and discretion in doing business. Following Jamali and Mirshak (2007), CSR is as a ‘set of management practices that ensures the company maximises the positive impacts of its operations on society’. The Commission of the European Communities (2001, 2002) considers that CSR is ‘a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment’. Wood (1991) defines the concept as ‘a business organisations configuration of principles of social responsibility, processes of social responsiveness and policies, programs and observable outcomes as they relate to the firm’s societal relationships’. Peloza (2009) includes both social and environmental initiatives within this definition, since both are potential drivers of business value. This author found a total of 39 unique measures of CSR. Most studies (82%) have used a single measure, most commonly: pollution control or output (18%); environment, safety investments and health (16%); third party audits or awards (12%); the Fortune magazine rankings (9%) and the KLD index (9%).

Some authors have focused on the reactions towards CSR of specific stakeholders, such as employees and customers (Sen and Bhattacharya, 2001) or managers (Ditlev-Simonsen and Midttun, 2011), while the link between CSR and the FP of enterprises has received considerable attention (Callan and Thomas, 2009).

### 2.1 The link between corporate social responsibility and financial performance

The study of the relationship between CSR and FP dates back to the early 1970s. An increasing number of studies have attempted to discover the relationship that exists between both variables and wish to answer two questions: what the sign of that relationship is like (positive, negative or neutral) and what the causal sequence between the two variables is like.

Several hypotheses propose a positive relationship between responsible behaviour and economic results. The hypothesis of social impact (Cornell and Shapiro, 1987) is based in the idea that those companies which usually satisfy the stakeholders’ necessities improve their image and reputation, and thus their financial performance. However, the hypothesis of available funds (Waddock and Graves, 1997) proposes that a good economic result generates the funds needed to invest in socially responsible activities. The positive synergy hypothesis (Waddock and Graves, 1997) suggests that a ‘virtuous circle’ exists between the CSR and the FP, signifying that a good management should
improve the relationship with the company’s stakeholders. This will have a positive impact on the enterprise’s performance and will permit it to obtain new funds with which to finance CSR activities.

Other hypotheses establish a negative relationship between CSR and financial performance. The trade-off hypothesis is shown by Friedman’s (1970) neoclassic proposal: the only responsibility of a company is to maximise its profits. The additional costs generated by responsible behaviour could damage profits. The managerial opportunism hypothesis (Preston and O’Bannon, 1997) suggests that, in the case of profitability, managers will reduce CSR expenses in order to maximise their salaries, which are attached to financial performance. The negative synergy hypothesis (Preston and O’Bannon, 1997) combines these two hypotheses: investing in CSR will reduce corporate performance and this will limit the amount of resources dedicated to social activities in the manner of a ‘virtuous circle’.

Finally, some authors claim a neutral interaction between CSR and FP. The moderating variables hypothesis (McWilliams and Siegel, 2001) states that it is not possible to find a clear and significant relationship between these two concepts. There are some variables, such as the company’s size, the sector, risk, the costs involved in innovation and so on, which may moderate this relationship. Table 1 shows a summary of these hypotheses.

Table 1 Typologies for the relationship between CSR and FP

<table>
<thead>
<tr>
<th>Causal sequence</th>
<th>Positive link</th>
<th>Neutral link</th>
<th>Negative link</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR→FP</td>
<td>Social impact hypothesis</td>
<td>Moderating variables hypothesis</td>
<td>Trade-off hypothesis</td>
</tr>
<tr>
<td>FP→CSR</td>
<td>Available funds hypothesis</td>
<td>Managerial opportunism hypothesis</td>
<td>Negative synergy</td>
</tr>
<tr>
<td>CSR↔FP</td>
<td>Positive synergy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Salzmann et al. (2005)

So, to date the evidence pertaining to the influence of CSR on a company’s FP has been inconclusive. Whilst some studies find no relationship at all (Gilley et al., 2000; Thornton et al., 2003), some others have shown a negative relationship (Wagner et al., 2002). But the majority of studies positively associate CSR in large firms with enhanced product differentiation, improved production efficiencies and lower operation costs, each of which contributes positively to a company’s financial performance (Hart and Ahuja, 1996; Harrison and Freeman, 1999; Mackey et al., 2007). These mixed findings may be explained by the difficulty of demonstrating empirically a direct causal effect of CSR on financial performance, particularly in cases where the activity is philanthropic in nature and not directly related to the operational business of an enterprise (Burke and Logsdon, 1996; Castka et al., 2004). Furthermore, as CSR requires an important investment in resources, the return on that effort may often only be realised in the long term, rather than becoming immediately apparent through improvement in short-term FP (Hart and Ahuja, 1996; Russo and Fouts, 1997; Eisenhardt and Martin, 2000).

According to some authors, such as Skjarseth and Wetttestad (2009), Dunn (1994), Underdal (2004), Oberthür and Gehring (2006), CSR can create different types of effects within and outside companies. These authors distinguish among the ‘outputs’, ‘outcomes’ and ‘impact’ of corporate decision-making processes in relation to this issue. They define
CSR outputs as ‘commitment and strategies with regard to integrating social and environmental concerns into business operations and stakeholder relations. Commitment and strategies may include, for example, the development of an environmental or diversity policy with targets and timetables as well as the decision within a company to adopt the Global Compact or other standardised CSR instruments’. As a result of this first step, a company’s output must generate some form of behavioural change, that is, the outcome. Changes in practices, such as greening the company’s product portfolio, implementing environmental management systems, installing eco-efficient technologies, etc., are therefore considered in the study presented herein. Finally, the impact of CSR is related to implications for society and the environment, such as a reduction in CO₂ emissions, discriminating recruitment practices or bribery. We should now raise the question of how these effects can be measured. The information needed to identify a company’s CSR output is, in many cases, publicly available. However, in the case of the outcomes, it is more difficult to find information concerning the environmental and social activities that companies carry out, product development, organisational structures or resource allocation, thus making the use of questionnaire data or interview information necessary. Finally, in relation to the impact of CSR, it is relatively easy to obtain information concerning environmental issues, as these genuinely emerge outside the company (a reduction in polluting emissions, resource preservation through material efficiency, etc.). However, the impact of social issues is often more intangible.

In this paper we shall pay particular attention to CSR outputs since, as explained above, it is possible to obtain both public and confidential data concerning the strategies adopted and commitments made by companies.

In this respect, as previously mentioned, ‘a simple compilation of the findings suggests there is a positive association and certainly very little evidence of a negative association, between a company’s social performance and its financial performance’ (Margolis and Walsh, 2003, p.277).

Spicer (1978), Shane and Spicer (1983) and Heinkel et al. (2001) propose that firms with a strong social or environmental performance record may obtain investor trust and are regarded as a less risky investment compared to those corporations that perform poorly. This proposition leads CSR practices to be valued as an intangible business component which influences a company’s market value and its cost of capital.

According to Surroca et al. (2010), in order to defend arguments linking intangibles to performance we should rely on the Resource-Based View (RBV) framework and on its recent formulations connecting social and environmental challenges to firm resources (the so-called natural resource-based view). According to RBV logic, CSR may be an intangible asset that leads to more effective use of resources, which has a positive impact on FP. The instrumental stakeholder theory explains the relationship between both constructs by claiming that the development of close relationships with primary stakeholders allows a company to develop some intangibles resources which help it to achieve a competitive advantage over its rivals (Orlitzky et al., 2003).

Bearing in mind the preceding arguments, we have established the following hypotheses:

H1: CSR improves financial performance.

H2: Considering the intangible components of CSR, the relationship will be stronger for the company’s long-term performance than for its short-term performance.
3 Methodology

3.1 Sample and variables

According to Prado et al. (2008) it would appear to be more appropriate to consider corporate practices in a specific country separately in order to determine the relationship between CSR and FP. Although several studies have used international firms, the divergent results may be owing to the cultural features associated with the geographic area in which the firm operates (Jamali and Mirshak, 2007). This study therefore covers a whole set of Spanish enterprises, regardless of their activity.

In Spain, the concept of CSR came into being at the end of the 1990s. At that time, the Association of Collective Investment and Pension Fund Institutions (INVERCO) introduced the concept of Responsible Social Investment in order to promote responsible saving among investors (Prado et al., 2008). The Spanish Accounting Standards Board currently obliges Spanish firms to produce and disclose an environmental report in their annual accounts owing to the financial repercussions this information has on companies and users’ growing demand for this information. However, some consider social information as voluntary information. Companies’ websites have become the compulsory means of disclosure of corporate governance and other issues. We therefore decided that analysing the CSR Reports and Ethics Codes disclosed by the sample companies on their websites would be the best way to collect information about the enterprises’ social activities. Andrikopoulos and Kriklani (2013) also consider corporate websites to be the best source of this type of data. They claim that the Internet is a fundamental technology for organisational self-representation and the pursuit of corporate legitimacy, and consider that the extent of environmental information that is disclosed on company websites is greater than the amount of information that is disclosed in annual reports.

The final sample is made up of the companies listed on the Madrid Stock Exchange owing to the availability and quality of the information. We therefore have 128 corporations from different sectors. Of the 128 companies, 6 could not be included as it was not possible to obtain their full information. The definitive sample of the corporations analysed in this study is, therefore, 122.

In order to discover the firms’ CSR strategy, we have established 11 variables that we consider to be the most representative of a company’s behaviour as regards this issue. These are: the company has elaborated an ethics code in accordance with the principles laid down in the Global Reporting Initiative (GRI), it follows the AA1000 regulation, maintains social management systems (SA8000), follows the ISO26000RS, is included in the sustainable stock market indexes, has a CSR department, maintains environmental management systems (ISO14000), maintains quality management systems (ISO9000), makes external social verification and has a strategy regarding sustainable development. For this choice, we have tried to cover the items of environment, human rights, labour, product responsibility and society according to the GRI guidelines for corporate social reports. GRI indicators are increasingly used in research on CSR disclosure in different countries and represent a transnational attempt to employ similar standards for preparation and reporting.

These variables have been coded using 0 or 1, where the value 0 is taken if no activity related with the item has been detected and that of 1 is taken if the information indicates that the firm has performed some activity regarding the item coded. The information was collected in December 2012.
Wu (2006) classifies corporate FP measures into four categories: profitability, asset utilisation, growth or market-based measures. Profitability measures include Return on Equity (ROE), Return on Sales (ROS), Return on Investment (ROI), Earning per Share (EPS) and profit margin. Asset utilisation measures are Return on Assets (ROA) and asset turnover. Growth measures contain average profitability and average asset utilisation. Market-based measures include stock performance, market return, market value to book value and other market-based measures of performance.

In this case, we consider the growth measures to be more appropriate since they include the results of several periods of time. We have therefore used the average ROA (years 2009, 2010, 2011). This measure has been used to represent short-term economic results, signifying that in order to obtain the long-term intangible effect we have also calculated a market-based measure: the market-to-book ratio (market value/book value of equity). The CSR possesses the characteristics of an intangible asset and it may provide the firm with a competitive advantage, thereby generating an abnormal return. Hall (1993) suggests that the ratio of market-to-book value is an adequate proxy for intangible assets. According to Rose and Thomsen (2004), this variable measures the market’s perception of the corporation which is theoretically based on the expected net present value of future dividends. It is a forward-looking variable. Surroca et al. (2010) consider that the intangibles are an important part of the CSR, and therefore have long-term effects on corporate performance, effects which are clearly fully captured by the market-to-book ratio.

4 Results

As we can see in the Table 2, the companies on the Madrid Stock Exchange (December 2011) do not, in general terms, develop an intensive CSR strategy. It is notable that there is an ethic code in 64.8% of cases in addition to a fulfilment of the ISO 14000 (45.1%). However, only 1.6% of the companies fulfil the SA8000 principles and only 4.9% of the firms maintain a CSR department.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Frequency distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethic Code</td>
<td>64.8%</td>
</tr>
<tr>
<td>Principles of the Global Reporting Initiative</td>
<td>39.3%</td>
</tr>
<tr>
<td>AA1000</td>
<td>17.2%</td>
</tr>
<tr>
<td>SA8000</td>
<td>1.6%</td>
</tr>
<tr>
<td>ISO26000RS</td>
<td>6.6%</td>
</tr>
<tr>
<td>The company is included in the sustainable stock market indexes (FTSE-4Good, DJSIWorld, DJSI Stoxx, FTSE4Good Ibex)</td>
<td>24.6%</td>
</tr>
<tr>
<td>CSR department</td>
<td>4.9%</td>
</tr>
<tr>
<td>ISO14000</td>
<td>45.1%</td>
</tr>
<tr>
<td>ISO9000</td>
<td>37.7%</td>
</tr>
<tr>
<td>The company makes internal or external social verification</td>
<td>27.9%</td>
</tr>
<tr>
<td>The company develops an strategy regarding sustainable development</td>
<td>29.5%</td>
</tr>
</tbody>
</table>
The empirical analysis carried out entailed several phases:

1. Analysis of the differences among the companies FP depending on their CSR strategy by means of a hierarchical cluster analysis.

2. Independent samples $t$-test in order to find significant mean differences among the clusters by considering the ROA and the market-to-book ratio.

3. A multiple linear regression which enables the effect of CSR practices on corporate performance to be explained.

In order to achieve the objective of discovering significant differences in the firms’ financial performance depending on their CSR strategy, we have developed an agglomerative hierarchical cluster analysis, using the average linkage between groups to link the clusters.\(^1\)

We wish to separate the companies in the sample into clusters which show similar behaviours in relation to the eleven variables that define the corporations’ CSR strategies.

An analysis of the dendogram allowed us to conclude that the most appropriate option was that of two clusters. We then developed a discriminant analysis (Wilks’ Lambda = 0.113; Chi-Square = 249.840, $p < 0.001$). The null hypothesis claims that the model does not permit the clusters’ means to be distinguished. However, the fact that the level of significance is inferior to 0.001 makes it is possible to conclude that the model is able to distinguish between the established clusters in a significant manner.

The description of the clusters is presented in the Table 3. As we can observe, most of the companies belong to Cluster 2 (82 corporations), i.e. the one in which, in general terms, the firms do not comply with the majority of the variables analysed.

<table>
<thead>
<tr>
<th></th>
<th>Cluster 1 (40 companies): intensive CSR strategy</th>
<th>Cluster 2 (82 companies): limited CSR strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethic code</td>
<td>90% of the companies</td>
<td>The 90.7% of the companies without an ethic code is in this cluster</td>
</tr>
<tr>
<td>Principles of the global reporting initiative</td>
<td>100% of the companies</td>
<td>Every companies which not follow the GRI are in this cluster</td>
</tr>
<tr>
<td>The company is included in the sustainable stock market indexes</td>
<td>The 93.3% of the companies</td>
<td>Only the 2.4% of the companies</td>
</tr>
<tr>
<td>AA1000, SA8000, ISO26000RS</td>
<td>The 100% of the companies</td>
<td>None of them</td>
</tr>
<tr>
<td>CSR department</td>
<td>The only two firms of the sample with CSR department are in this cluster</td>
<td>None of them</td>
</tr>
<tr>
<td>ISO14000</td>
<td>The 75% of the companies</td>
<td>The 85.1% of the companies without ISO14000 certification is in this cluster</td>
</tr>
<tr>
<td>ISO9000</td>
<td>The 67.5% of the companies</td>
<td>The 82.7% of the companies without ISO9000 certification is in this cluster</td>
</tr>
<tr>
<td>The company makes internal or external social verification</td>
<td>Every firm with social verification is in this cluster</td>
<td>None of them</td>
</tr>
<tr>
<td>The company develops an strategy regarding sustainable development</td>
<td>The 77.8% of the companies with an CSR strategy is in this cluster</td>
<td>The 90.2% of the companies of this cluster does not include CSR in its strategy</td>
</tr>
</tbody>
</table>
If we pay attention to the description of the clusters, it can be concluded that the 40 firms in Cluster 1 follow an intensive CSR strategy. However, the 82 companies in Cluster 2 have a limited CSR strategy. We have therefore created a CSR index in an attempt to confirm this conclusion: the arithmetic mean of the eleven variables proposed. Each item is worth 1 point and the total is divided by 11. This index makes it possible to confirm the prior conclusion: that 93% of the firms in Cluster 1 have an index equal or superior to 0.73, while none of the firms in Cluster 2 has a value superior to 0.45.

The dichotomous variable obtained using the cluster analysis was then used to perform an independent sample $t$-test in order to check whether there were any significant differences between the mean market-to-book and the ROA ratios in the two clusters. The principal results of the test are shown in Table 4.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Levene $t$-test</th>
<th>Mean contrast between groups</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$F$</td>
<td>Sig.</td>
</tr>
<tr>
<td>Mean ROA</td>
<td>2.127</td>
<td>0.147</td>
</tr>
<tr>
<td>Mean M-to-B</td>
<td>2.569</td>
<td>0.163</td>
</tr>
</tbody>
</table>

Notes: *Significant $p < 0.1$; **Significant $p < 0.05$; ***Significant $p < 0.001$.

There are significant differences between the market-to-book mean in the two clusters, with a confidence level of 90%. However, there are no significant differences in the ROA ratio. We can also see that the market-to-book mean ratio of Cluster 1 (62.0311) is superior to that of Cluster 2 (21.5733).

A multiple linear regression was subsequently carried out, which permitted an in-depth study of the results obtained previously and an analysis of the causal relationship, thus confirming the role played by CSR practices in attaining a higher rate of financial performance. The dependent variable used was the market-to-book ratio. Several control variables were introduced to represent the size of the enterprises and the industry in which the firm operates. Size and industry are recognised as being determinant of social and financial performance (Ullman, 1985; Waddock and Graves, 1997). The question of size was approached by using the logarithm of the total assets, while the industry was introduced by using dummy variables (two dummy variables to classify the companies into service, industry or energy).

As we can see in Table 5, the model is not significant if we consider the control variables ($F = 1.095; p = 0.354$) (Model 1). We therefore decided to exclude both variables from the analysis since they do not have a significant influence on the dependent variable and could condition the results through their interaction with the independent variable.

As we observe in Table 5 (Model 2), the companies that appear to behave in a socially responsible manner have a positive and significant impact on the market-to-book ratio (there is a positive and statistically significant effect at a confidence level of 90%), thus explaining 2.8% of the variability of this variable. The standardised coefficient is, in this case, positive, i.e. the market-to-book ratio in this group of companies is superior. This result supports the conclusion obtained from the $t$-test. We can therefore claim that
the Spanish corporations which are on the stock market and maintain CSR practices have a market-to-book mean ratio that is significantly superior to the other companies studied. It is thus possible to conclude that the two hypotheses proposed have been confirmed.

Table 5  Multiple linear regression (dependent variable: M-to-B)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Standardised coefficients</td>
<td>Standardised coefficients</td>
</tr>
<tr>
<td>Constant</td>
<td>–10.428</td>
<td>21.573</td>
</tr>
<tr>
<td>LogAssets</td>
<td>2.641</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>26.872</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>–17.171</td>
<td></td>
</tr>
<tr>
<td>Intensive CSR</td>
<td></td>
<td>40.458**</td>
</tr>
<tr>
<td>$F$</td>
<td>1.095</td>
<td>3.002*</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.028</td>
<td>0.024</td>
</tr>
<tr>
<td>$R^2$ adjusted</td>
<td>0.002</td>
<td>0.016</td>
</tr>
<tr>
<td>$R^2$ increase</td>
<td>0.028</td>
<td>0.024</td>
</tr>
<tr>
<td>$F$ increase</td>
<td>1.095</td>
<td>3.002*</td>
</tr>
</tbody>
</table>

Notes:  *Significant $p < 0.1$; **Significant $p < 0.05$; ***Significant $p < 0.001$.

5 Conclusions

The nature of the relationship between a company’s social behaviour and its financial performance has long been debated. One group of scholars has argued that any expenditure on social betterment increases a firm’s costs, thus placing it at an economic disadvantage in a competitive market (Friedman, 1970). In contrast, another group of scholars considers that the better a firm’s social performance is, the more easily it can attract resources and create unforeseen opportunities. CSR is therefore a source of competitive advantage (Barnett and Salomon, 2006).

In this paper we have researched the existence of that relationship by considering a specific context: the Spanish companies listed on the Madrid Stock Exchange. The results obtained support the second point of view. We have found a positive relationship between CSR and FP. This conclusion is supported by the majority of the studies carried out using Spanish firms’ data (Olcese, 2011). We have first made a descriptive analysis of the situation of the CSR in the Spanish context. In general terms, we can conclude that companies do not develop an intensive CSR strategy. However, with regard to the corporations with high levels in the CSR variables considered we can observe a positive influence on their financial performance. This relationship is stronger for the company’s long-term performance than for its short-term performance, thus supporting the intangible role of the CSR, i.e. it is possible to see an effect of responsible practices on long-term performance. As in the Hamilton et al. (1993) scenario, investors expect socially and environmentally responsive firms to deliver stock returns, unlike non-responsive enterprises. This conclusion is also similar to that obtained by McWilliams and Siegel (2000) and Lin et al. (2008), that is, that CSR does not have an impact on financial performance in the short-term but it does offer a remarkable long-term fiscal
advantage. Most researchers have agreed on the fact that socially responsible behaviour enhances the long-term sustainability and growth of the business (Taneja et al., 2011). The results obtained are in the research stream related to instrumental theory which argues that CSR influences FP because good management implies positive relationships with key stakeholders, which in turn has a positive impact on FP (Donaldson and Preston, 1995).

As explained in the introduction, we considered it interesting to focus on analysing the CSR practices implemented by solely Spanish companies because cultural differences, associated with several countries and regions, affect CSR development. In this respect, we should note that Spain is a country whose CSR ranks behind that of others such as the UK and the USA. In November 2011, the European Commission requested information from the 27 members of the European Union (EU) concerning the elaboration of a National Action Planning as regards CSR (UE Strategy 2011–2014 CSR). Spain did not present its planning on time owing to its change of Government. The forecast was that planning would take place throughout 2013. The Brussels agreements on CSR are not compulsory, but seek unanimity and a hard coordination among companies, national authorities and other countries outside the EU. The results obtained in this paper confirm this tendency: Spanish enterprises do not, in general terms, develop an intensive CSR activity. However, the firms that have the majority of the observed variables have been able to achieve a better financial performance, which confirms the proposed hypotheses.

6 Limitations and future research

Our study has several important implications for both practitioners and scholars. A fruitful area of future research on the nature of the relationship between CSR and FP might therefore be to relate how differences in research measures and methods could contribute to different empirical results. In this case, we have used both market-based and accounting-based indicators, since we considered it important to distinguish between the long-term and the short-term effects of CSR and to show its intangible role. Many studies merely analyse market-based indicators (e.g., Belkaoui, 1976; Klassen and McLaughlin, 1996) or accounting-based indicators (e.g., Hart and Ahuja, 1996; King and Lenox, 2002).

The variables considered to measure CSR are not free from criticism. In a review of CSR-related literature, Wu (2006) discovered that the means used to measure CSR were: annual report disclosure, pollution ratings, Moskowitz’s ratings, KLD ratings, Fortune ratings, Business Ethics 100, corporation philanthropy, compliance and responsive behaviour. Managers and researches can use many types of metrics to conceptualise CSR. We have chosen the 11 variables presented in this paper because they permitted us, on the one hand, to focus on companies from a specific country (in this case, Spain) and on the other to develop a comparative analysis between countries in different geographical and cultural areas in the future. Papers such as those by Tilt (2001) and Hartman et al. (2007) also follow this line of research.

Furthermore, in our research we have not considered the possibility of other variables intervening in the associations between CSR and FP. For example, some dimensions of the business environment or the degree of competition may moderate the causal links between both variables. An exploration of these possibilities may be the subject of future
research. The study of the direction of causality is also a possible extension of this work. The view that FP positively influences CSR and the view defining a recursive relationship between both constructs could be analysed by using the same model proposed in this paper.

Finally, another limitation may be the fact that the sample is made up of the companies listed on the Madrid Stock Exchange. It would be interesting to undertake a future analysis including a more complete sample in order to support the hypothesis in a more consistent way. A comparative analysis between countries in different cultural and geographical areas could generate an interesting line of future research too.

References


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Notes
1 We have used the Ochiai measure for binary variables.
2 It was also necessary to introduce dummy variables in order to include the clusters obtained as the independent variable (Cluster 1 is given value 0 and Cluster 2 is given value 1).