

Corporate Social Responsibility across Industries:

When can who do well by doing good?

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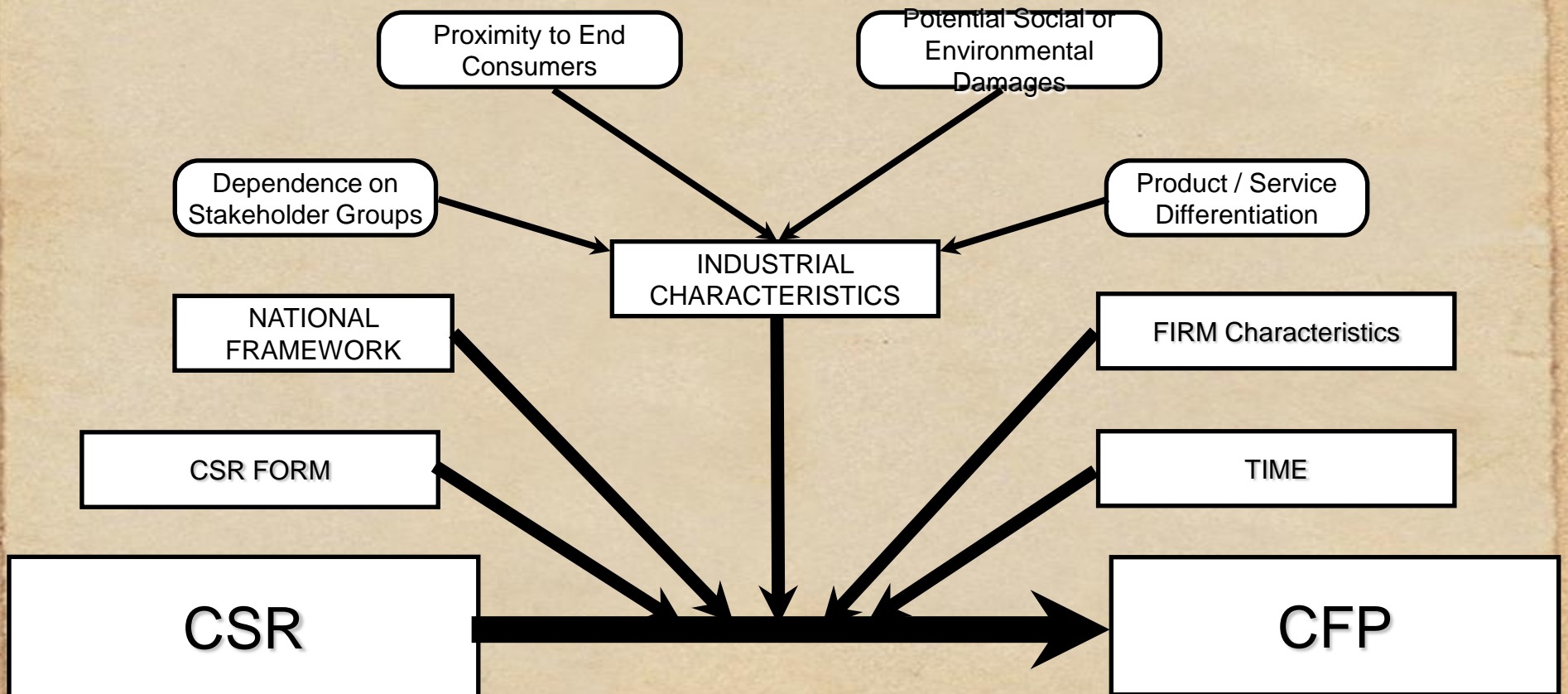
# Contingency Perspective 1:

## When does doing good lead to doing well?

- The concept of Corporate Social Responsibility (CSR) is contextual (e.g. GRI's reporting guidelines differ for nations & sectors)
- Contingency Perspective 1: The relationship between CSR and corporate financial performance (CFP) is also contextual
  - Specifically, we assume that (i) CSR form, (ii) Time, (iii) Firm characteristics, (iv) National Framework and (v) Industrial characteristics moderate the CSR-CFP relationship
  - Effects of industrial characteristics on CFP are often controlled, but these effects on CSR-CFP relationship however are usually not controlled for (e.g. no Industry Dummy multiplied with CSR indicator)
  - Industries differ in their (i) dependence on various stakeholder groups, (ii) their proximity to the end consumer, (iii) their potential social & environmental damages and (iv) their degree of product/service differentiation.
  - Hence, if effects of CSR on CFP are heterogeneous across industries, these effects might have biased previous studies.

# Contingency Perspective 1:

**When** does doing good lead to doing well?

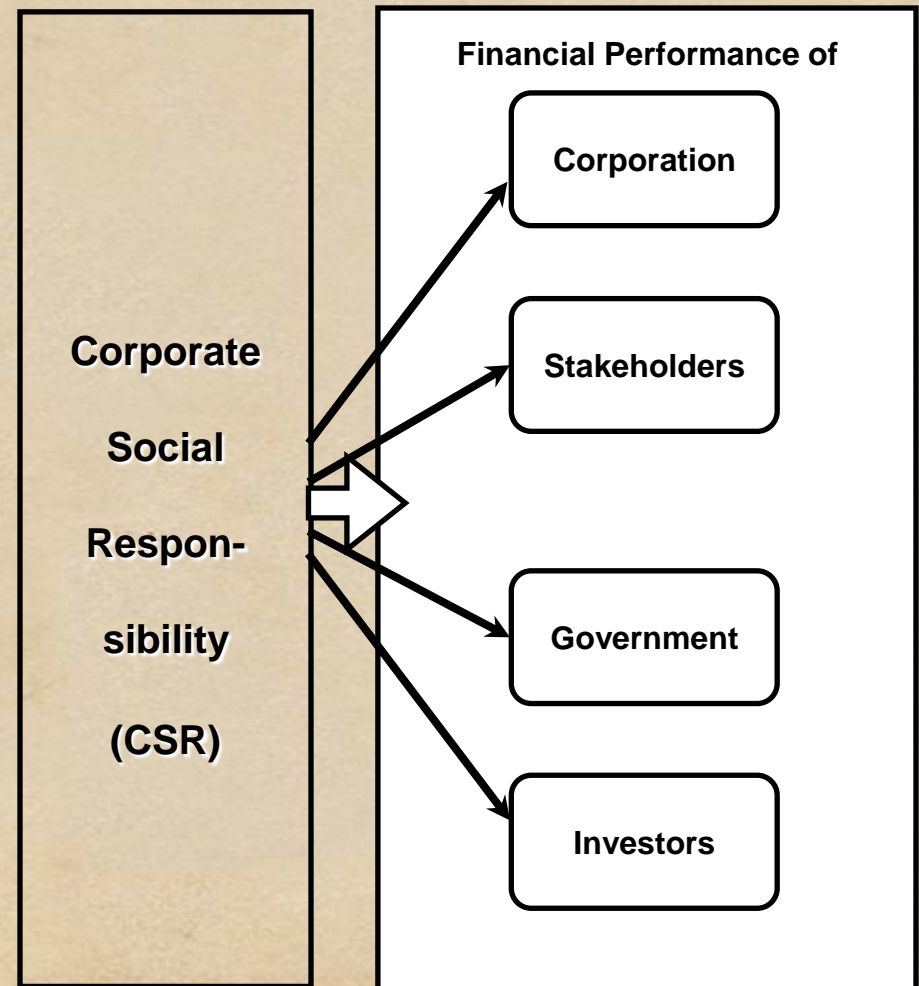


## Contingency Perspective 2: When can **Who** do good by doing well?

CSR affects many more bottom lines than just the corporate bottom line!

CSR can affect the financial performance of

- Corporations
- Investors
- Governments
- Stakeholders



# Empirical Analysis

We investigate **if the CSR-CFP relationship is heterogeneous** from 3 perspectives:

- the corporate perspective
- the privately informed investors perspective
- the publicly informed investors perspective

# Data

- Innovest's contextual CSR definition-Global 100 sustainable corporations
- A group of 100 firms with highest Innovest CSR rating is announced every year at World Economic Forum end of January
- To avoid preference to any industry, each group has same industry exposure as MSCI World
- For descriptive statistics, see Table 1 in handouts

# Econometric Analysis

(Based on Industry-specific Carhart Models)

- **Corporate Perspective:**
  - We estimate the equal weighted financial performance of industrial CSR leaders in year before rating is published
- **Privately Informed Investor Perspective:**
  - We estimate the equal weighted financial performance of industrial CSR leaders in January after the rating is published
- **Publicly Informed Investor Perspective:**
  - We estimate the equal weighted financial performance of industrial CSR leaders from February to December after the rating is published
- In all estimations, we control for size, value/growth, momentum and country effects

# Results

- Corporate Perspective:
  - Please see Table 2 in handouts
- Privately informed investor Perspective:
  - Please see Table 3 in handouts
- Publicly Informed Investor Perspective:
  - Please see Table 3 in handouts

# Conclusions/Implications

- The CSR – CFP effects appear heterogeneous across industries (even from the publicly informed investor perspective)
- CSR significantly improves CFP in the health care, industrials and consumer discretionary sector
- The health care and industrials sectors even appear characteristics of weak-form inefficiency to CSR ratings, as publicly informed investors could exploit them
- **Implications:**
  - Professionals are wise, when they assess CSR on an industry base (as they often do)
  - Academics might want to control for the heterogeneity of CSR – CFP relationship across industries in future studies or in re-estimating previous studies

Thank you very much for your attention!

We are very thankful for  
(especially critical)  
questions and comments!