Heterogeneous CSR approaches, corporate social performance and corporate financial performance

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Implicit homogeneity in past CSR literature (Awaysheh et al., 2020; Barnett & Salomon, 2012; Griffin & Mahon, 1997; Servaes & Tamayo, 2013; Waddock & Graves, 1997)

Contrasts with institutional theory and instrumental stakeholder theory (Donaldson & Preston, 1995; Freeman & Reed, 1983; Oliver, 1991; Suchman, 1995)

We identify three heterogeneous CSR approaches, namely strategic CSR, CSR-as-insurance, and corporate greenwashing
Promised CSP and Realised CSP

- Stakeholder CSR demands diverge (Choi & Wang, 2009; Henisz et al., 2014; Jensen, 2010; Oliver, 1991; Porter & Kramer, 2006; Suchman, 1995)
- Strategic CSR: High realised CSP, low promised CSP
- CSR-as-insurance: Average promised CSP and realised CSP
- Corporate greenwashing: High promised CSP, low realised CSP
136 granular CSR variables from Refinitiv ESG for a world-wide sample of 4,370 unique firm from 2003-2019

- K-means Clustering
- Wittkowski et al. (2004) non-parametric rank ordering test
Clustering CSR approaches

The CSR reporting, policy, target, activity, controversy and performance rank per cluster

<table>
<thead>
<tr>
<th>Cluster</th>
<th>N</th>
<th>Asset4</th>
<th>Reporting</th>
<th>Policy</th>
<th>Target</th>
<th>Activity</th>
<th>Controversy</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6,953</td>
<td>6.45</td>
<td>7.01</td>
<td>7.47</td>
<td>6.76</td>
<td>7.22</td>
<td>6.75 (3.54)</td>
<td>5.01 (1.75)</td>
</tr>
<tr>
<td>2</td>
<td>6,366</td>
<td>4.20</td>
<td>4.50</td>
<td>5.62</td>
<td>3.15</td>
<td>5.30</td>
<td>7.85 (2.74)</td>
<td>4.78 (2.04)</td>
</tr>
<tr>
<td>3</td>
<td>13,092</td>
<td>2.57</td>
<td>1.25</td>
<td>3.66</td>
<td>2.58</td>
<td>3.15</td>
<td>8.40 (2.38)</td>
<td>5.47 (2.31)</td>
</tr>
</tbody>
</table>

Internally consistent and externally divergent
Corporate social performance

- Emissions, labour conditions, and CSR controversies
- Strategic CSR strictly superior in emissions and labour conditions
- Strategic CSR firms experience 2.10 and 6.29 times fewer CSR controversies than CSR-as-insurance and corporate greenwashing firms
### Fama & French international 5-factor model

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Strategic CSR Estimates</th>
<th>t</th>
<th>CSR-as-insurance Estimates</th>
<th>t</th>
<th>Corporate greenwashing Estimates</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.001***</td>
<td>2.23</td>
<td>-0.001</td>
<td>0.70</td>
<td>-0.001***</td>
<td>-2.74</td>
</tr>
<tr>
<td>Market</td>
<td>0.995***</td>
<td>8.58</td>
<td>0.943***</td>
<td>8.62</td>
<td>0.951***</td>
<td>10.53</td>
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<tr>
<td>SMB</td>
<td>0.479***</td>
<td>2.23</td>
<td>0.297</td>
<td>1.41</td>
<td>0.125</td>
<td>0.58</td>
</tr>
<tr>
<td>HML</td>
<td>0.005*</td>
<td>0.05</td>
<td>0.027</td>
<td>0.14</td>
<td>0.083</td>
<td>0.33</td>
</tr>
<tr>
<td>RMW</td>
<td>-0.075</td>
<td>-0.20</td>
<td>-0.013</td>
<td>-0.22</td>
<td>0.091</td>
<td>0.20</td>
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<tr>
<td>CMA</td>
<td>-0.149</td>
<td>-0.47</td>
<td>-0.107</td>
<td>-0.44</td>
<td>-0.057</td>
<td>-0.30</td>
</tr>
<tr>
<td>N</td>
<td>125.66</td>
<td></td>
<td>60,924</td>
<td></td>
<td>67,873</td>
<td></td>
</tr>
<tr>
<td>Annualised alpha</td>
<td>1.42%***</td>
<td></td>
<td>-0.38%***</td>
<td></td>
<td>-1.33%***</td>
<td></td>
</tr>
</tbody>
</table>
Long-term profitability

![Graph showing ROA (%) over Years since first implementation for different categories of corporate actions: Corporate greenwashing, CSR-as-insurance, Strategic CSR, No ESG rating.](image-url)
It is not whether, but rather how firms approach CSR that determines their societal contribution and financial performance.

50%, 24%, and 26% of the firms approach respectively strategic CSR, CSR-as-insurance and corporate greenwashing.

Strategic CSR firms outperform in both financial and social performance, whereas corporate greenwashing firms underperform.
Implications

- **Empirical CSR literature:** we provide a plausible explanation for the diverging findings regarding the social to financial performance relation.

- **Theoretical CSR literature:** we verify the theoretical models for strategic CSR, CSR-as-insurance and corporate greenwashing on a global scale.

- **Theoretical contribution:** we contribute to institutional theory and instrumental stakeholder theory by showing that firms heterogeneously approach CSR and that those who most consider stakeholder needs attain the largest benefits.

- **Practical implications:** Managers and investors should pursue realised CSP, rather than provide empty promises. However, initial target setting is not penalised as long as these targets are materialised in the medium-run.


