The impact of environmental, social and governance dimensions of corporate social responsibility: Australian evidence

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Abstract
Corporate social responsibility (CSR) is a concept with constantly increasing importance for stakeholders. Environmental, social and governance (ESG) practices of organizations contribute to their CSR performances. Using stakeholder theory as a framework, this research aims to find the impact of CSR on the economic performance of organizations. In this research, we used annual ESG data on Australian firms, covering the period from 2010 to 2016. All independent variables were lagged by one year. Regression analysis was used to test the impact of CSR on economic performance. The findings show that social practices consistently lead to improved economic performance. To a lesser extent (in three of the six years analysed), environmental practices also had a positive effect on economic performance, but the effect size was much smaller than that of social practices. However, there is very weak evidence for a significant relationship between governance and economic performance, with only a single significant effect in 2015. This study contributes to the literature by focusing on economic performance rather than traditional financial performance measures. The study also contributes to the managerial understanding of the importance of each CSR dimension on economic performance.

Keywords: Corporate social responsibility; Environmental practices; Social practices; Governance practices; Economic Performance.
1. Introduction

The global financial crisis has caused severe disruptions in the USA, Europe and the Pacific region in 2008 (Aizenman et al. 2010), raising social concerns among all affected communities (Nicholson et al. 2011). According to Galbreath (2013), the financial crisis has increased concerns over companies’ ethical, social, environmental and accountability performances. Combined with increased competitive nature of the business environment over the last few decades, achieving a bigger competitive advantage now requires a diverse range of activities. Therefore, organizations realize that intangible aspects are as important as the tangible aspects of conducting business. Beyond that, all stakeholders are placing significantly more emphasis on the socially responsible aspects. Consumers, investors, businesses, and governments are the main stakeholders, which are stimulating this change with their changing expectations from businesses (Carroll and Schwartz, 2003). The concept of corporate social responsibility (CSR) is growing in importance and attracting the attention of scholars.

A widely recognized interpretation of CSR suggests that CSR includes economic, legal, ethical and philanthropic components (Carroll, 1991). There has been an interest in the concept of CSR and its effects on organizations in the last couple of decades. Many studies have been conducted to analyse the effects of CSR on different organizational aspects. The findings of many studies that focused on the relationship between CSR and firm performance are mixed (Mishra and Suar, 2010). Some of these studies (e.g., Orlitzky et al. 2003; van Beurden and Gössling, 2008) found a positive relationship, while others (e.g., Crisóstomo et al. 2011; Malcolm et al. 2007) reported a negative relationship. In addition, there are differences across the findings of CSR studies conducted in different countries, which makes it difficult to arrive at universal conclusions (Forte, 2013; Lambooy, 2010). Most of the previous studies in this area focused on financial performance as a measure of firm performance. However, the economic performance of the firm has received less attention, despite the fact that environmental, social and governance (ESG) dimensions are critical elements of the CSR concept (Sacconi, 2006).

This research aims to contribute to the sustainability management, CSR, and environmental management literatures by analysing the impact of CSR on the economic performance of firms in Australia using the instrumental stakeholder theory as a framework. We use 7 years (2010-2016) of longitudinal data from the Thomson Reuters ESG database. Unlike many previous studies in this area, we use corporate governance in our model, since the environmental, social, and governance dimensions of CSR are interconnected and should be analysed within an integrated framework (Galbreath, 2013; Brandão, 2009; King, 2011).

2. Literature review

In the fields of business ethics, sustainability and CSR, many authors (e.g. Jamali, 2008; Turker, 2009) have argued that there is no universally accepted definition of CSR. In addition, Frankental (2001) argued that CSR does not have a universally accepted definition, which can result in different interpretations by different people. However, most of the definitions of CSR include social, environmental and stakeholder aspects. According to Epstein and Schnietz (2002) CSR consists of aspects such as ethics, governance, transparency, business relationships, financial return, community involvement, product value, employment practices and environmental protection. Therefore, the contemporary definition of CSR should include dimensions involving social, environmental and governance issues. In this study, the CSR is defined as organizations’ actions towards their internal and external stakeholders in terms of social, environmental and governance practices (Aguinis, 2011; Rupp, 2011). Profit maximization should not be the sole objective of commercial organizations. These organizations need to acknowledge the requirements of their internal and external stakeholders and should implement their business strategies in an ethically acceptable and socially responsible manner (Buchholz, 1991).

On the other hand, Baron (2001) considers CSR as a strategic tool that involves profit-making business activities. Siegel and Vitaliano (2007) investigated strategic CSR and its elements and found that strategic CSR produces economic benefits. The notion of strategic CSR is in line with the assumptions of instrumental stakeholder theory. The underlying assumption of both concepts is that companies are strategically engaged in CSR practices to achieve economic benefits. According to Porter and Kramer (2006), organizations should adopt a strategic perspective to CSR, which involves identifying the most beneficial strategies for the organizations. As well, since companies...
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