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The impact of government CSR supporting policies on economic growth

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Abstract

In this paper, we explore the link between socially responsible companies and economic growth across 25 countries during the 2000–2008 period. We extend the growth equation by incorporating corporate social responsibility (CSR) variables and a dummy variable to measure the impact of government CSR-supporting policies. We find that CSR firms are important for economic growth (positively affect growth) and that countries that strongly support CSR achieve higher growth rates. Specifically, countries without an organized and supportive CSR environment and guidelines can hardly expect to increase economy performance through the new growth channels generated by CSR companies (new markets and customers). It is thus important to investigate how CSR companies affect economic growth towards reconsideration of the government's role in CSR promotion as a means to boost economic growth.

JEL classification: M14; O47; O50; Q56

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1. Introduction

Sustainable development is a broad issue covering not only environmental concerns, but also social and economic concerns as well. It is development that addresses social problems in a new way, respecting the environment and contributing to positive economic gains with regard to growth

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and development. This kind of development aligns the interests of decision-makers with those of society, whilst focusing on long-term benefits and the wellbeing of society. Activities performed by small, medium-sized, and big companies have a strong impact on social and environmental issues addressed within the concept of sustainable development. Climate change, ozone depletion, biodiversity loss, human rights, labour rights, child labour, and discrimination of women and minorities are all issues under direct or indirect influence of business activities. In the light of the recent financial and economic crises, corporations have been put under scrutiny. Transparency and accountability are taking an ever so high priority. Corporations are creating and adding value through the production of goods and the provision of services for the larger society and for their customers. In this process, they generate profits for their shareholders as well as welfare for the community in which they operate, especially regarding the job creation. In this way, in order to create the added value, activities performed by companies should be balanced with regard to the impacts they have on the larger community. Their ordinary business practice has to be put in harmony with the changing environment.

Should small, medium-sized and large companies take this issue under review or must they pay attention to business performance only? It is a simple question: what is in it for them and why should they worry about the impact of their businesses on economic growth and society? The behaviour of socially responsible firms might have a positive influence on economic growth. On the other hand, firms engaged in corporate social responsibility (CSR) activities would face additional costs associated with such activities which could impair business performance. This would happen when CSR activities are followed by lower profits. Given that argument, there is little agreement on whether CSR firms are important for growth. The purpose of this paper is to determine the impact of CSR firms on economic growth (positive or negative) and whether countries that strongly promote CSR can count on higher growth rates.

Extensive research on economic growth determinants is available in Barro (1991), Barro and Sala-i-Martin (2004), Mankiw, Romer, and Weil (1992), Aghion and Howitt (2009), De La Croix and Michel (2008) and Acemoglu (2009). Studies identify about 21 variables and their possible connection with economic growth ranging from starting level of gross domestic product (GDP) per capita to the degree of capitalism. None of these researches investigates a possible nexus between CSR and economic growth.

A large body of research as presented in Margolis and Walsch (2003) examines the relationship between corporate social and corporate financial performance. However, only a few try to explore the direct link between CSR and economic growth. Somehow related studies on the social capital issue in the works of Putnam (1995), Helliwell and Putnam (1995), Hall and Jones (1996), Knack and Keefer (1997), and Coleman (1988) look for differences in growth rates through the roles of trust, societal structure, and social capital in the creation of human capital, through economic payoffs to social capital, and through the role of civil society. Navarro Espigares and González López (2006) explore the link between CSR indicators and economic growth components in the Organization for Economic Cooperation and Development (OECD). They find a positive link between CSR indicators and economic growth.

Our empirical findings have important policy implications. In line with the study of Navarro Espigares and González López (2006), we find CSR to be a significant economic growth determinant. Higher share of CSR firms in the economy means higher economic growth. Business performance of CSR firms positively affects economic growth and their associated share in growth is 6% for 25 economies included in the panel. Empirical results show that socially responsible behaviour should be taken into account when investigating the factors of economic growth, because in the future such behaviour is surely to become more meaningful. In fact, countries with strong