

Does CSR increase firms' profits? Evidence from DJSI firms, Hochgatterer, Claudia and Böheim, René

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ABSTRACT

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Firms face complex market conditions, external effects and asymmetric information which may lead to market failure and sub-optimal profits. In the literature, market failures could build the theoretical base for corporate social responsibility (CSR) implementation by firms. In fact, firms in competitive markets could use CSR as a management tool to gain more profits through diversification. Further, the implementation of CSR requires the detection of future trends and developments which makes the firms more stable to sudden events. Therefore, CSR may offer firms the opportunity to gain higher profits than they would get without CSR. Alternatively, CSR could lead to higher costs and thus to worse financial performance. However, the empirical evidence on this relationship is not conclusive as the statistical significance and the returns to CSR strongly depend on the measures and the definition of CSR. We examine the link between CSR and profit maximization by investigating 551 firms listed in the Dow Jones Global Index (DJGI) from 1997 to 2008. As some of these firms are also listed in the Dow Jones Sustainability Index (DJSI), which started in 1999, we use propensity score estimation techniques to identify the average treatment effect (ATT) of inclusion in the DJSI to uncover the effect of CSR on the firms' profits. In addition, we also use panel fixed-effects estimations of the association between CSR and profits. Additionally, some of the previous studies in this field are suffering from misspecification, aggregation and/or omitted variable bias, which justify the need for further research. Our study on the correlation between CSR and the firms' profit differs from these previous studies in various aspects. First, it uses the DJSI inclusion in the years 1999 and 2000 as a proxy for CSR commitment of firms. Second, we examine not only the short-run but also the medium-term effects of CSR on firms included in the DJSI. Third, the econometric methods used reflect the recent advances in program evaluation. We find a positive relationship between CSR and the firms' profit and that these firms are more stable over time.

Key words: Corporate social responsibility (CSR), profit maximization, average treatment effect (ATT), propensity score estimation, Dow Jones Sustainability Index (DJSI), program evaluation.