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DOES CSR INCREASE FIRMS' PROFITS? EVIDENCE FROM DJSI FIRMS

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We

- focus on the causal relation between the firms' engagement in CSR and their profits
- use a propensity score estimation method to find this relation for firms in the DJSI
- find positive effects of CSR on profits

Why CSR and profits?

- CSR as management tool - only cheap talk?
- Microeconomic foundation
 - firms undertake nothing without maximizing their profits (Varian 1984)
 - CSR as product attribute to stand out from the crowd (McWilliams and Siegel 2001)
 - CSR as signal on an market with asymmetric information

Existing empirical literature

- Meta-study of Orlitzky et al. (2003) with 52 studies
 - Investigated:
relationship between costs and benefits of CSR
 - Find:
positive relation between CSR and profits
 - But:
statistical significance and the returns to CSR depend strongly on the measures and the definition of CSR
- More reliable and transparent CSR proxies like KLD rating show persistent positive relations

Accounting data from firms listed in the DJSI and DJGI from 1997 to 2008

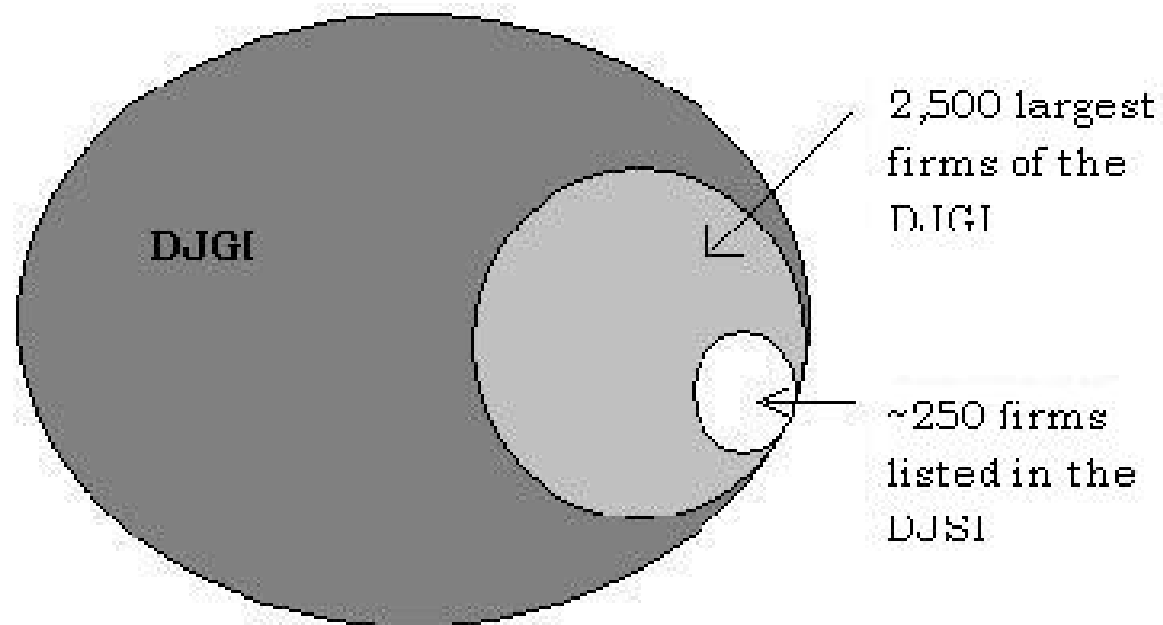


Figure 1: Integration of DJSI in the DJ. Source: Own illustration.

Descriptive Statistics

	DJSI		DJGI	
	before	after	before	after
Log ROIC	2.020	1.964	2.049	1.965
Log EBIT	6.261	6.638	5.687	6.144
Log ROE	2.532	2.586	2.446	2.471
Log net margin	1.708	1.799	1.739	1.834

Econometric Approach

$ATT = E[Y_1|D=1] - E[Y_0|D=1]$ in 2 Steps:

1. Estimating propensity scores:

$$P[DJIS_i=1 | X] = G(a_0 + \beta_i X_{i97} + \beta_i X_{i98} + \beta_i X_i)$$

2. Estimating ATT given the propensity scores:

$$ATT = E[(Profit_t - Profit_{(t-1)}) | DJIS=1, P(X)]$$

X = profits (ROIC, ROE, EBIT, net margin)
R&D, total sales, total assets, capital intensity,
total debt, OECD membership of home country, economic
sector, regions

Propensity Scores for ROIC

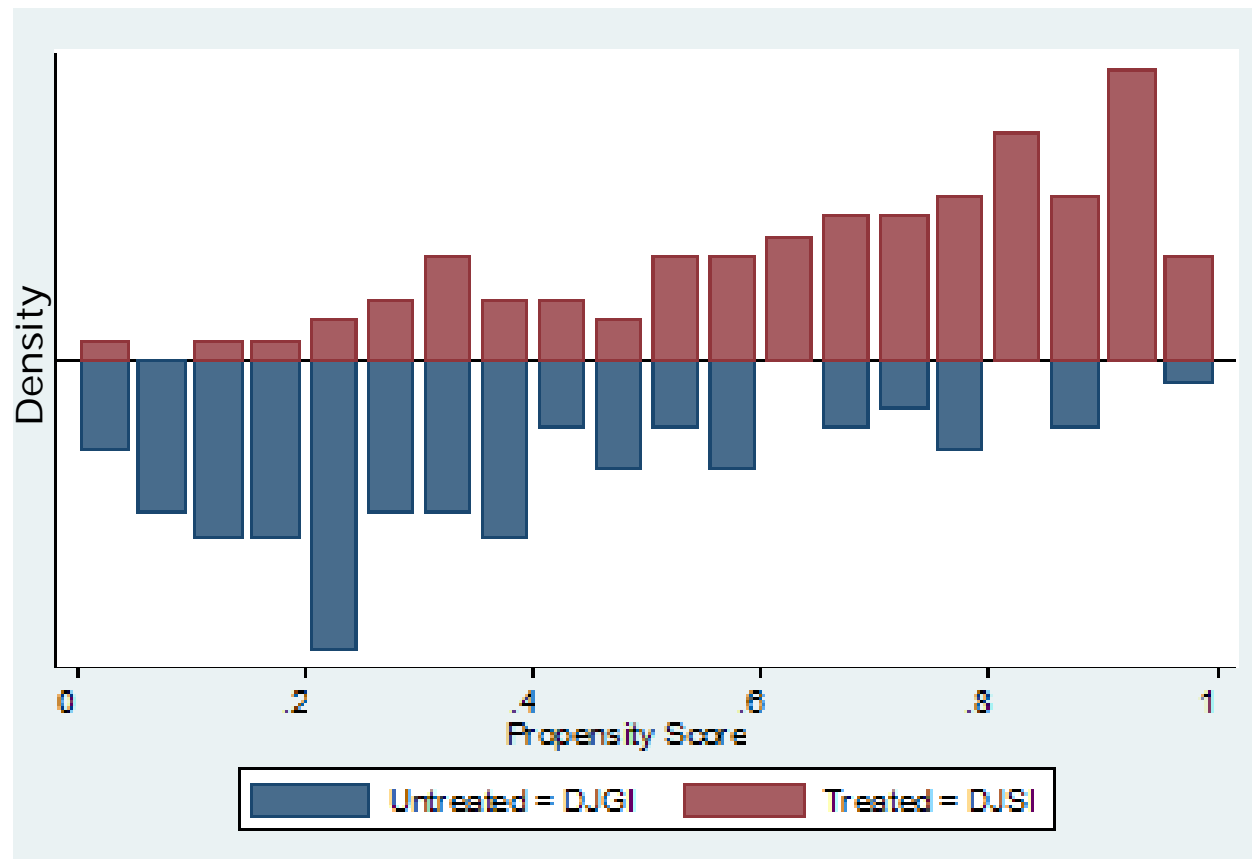


Figure 3: Propensity scores distribution of DJSI and DJGI firms after logit with ROIC.

Results from ATT with nearest neighbor matching

Dependent variable	Log ROIC	Log EBIT
Radius = 0.1	0.282**	0.471**
Radius = 0.1 and 6% trimmed	0.291**	0.446*
Radius = 0.1 and common support	0.291*	0.437*

Closing Comments

The results

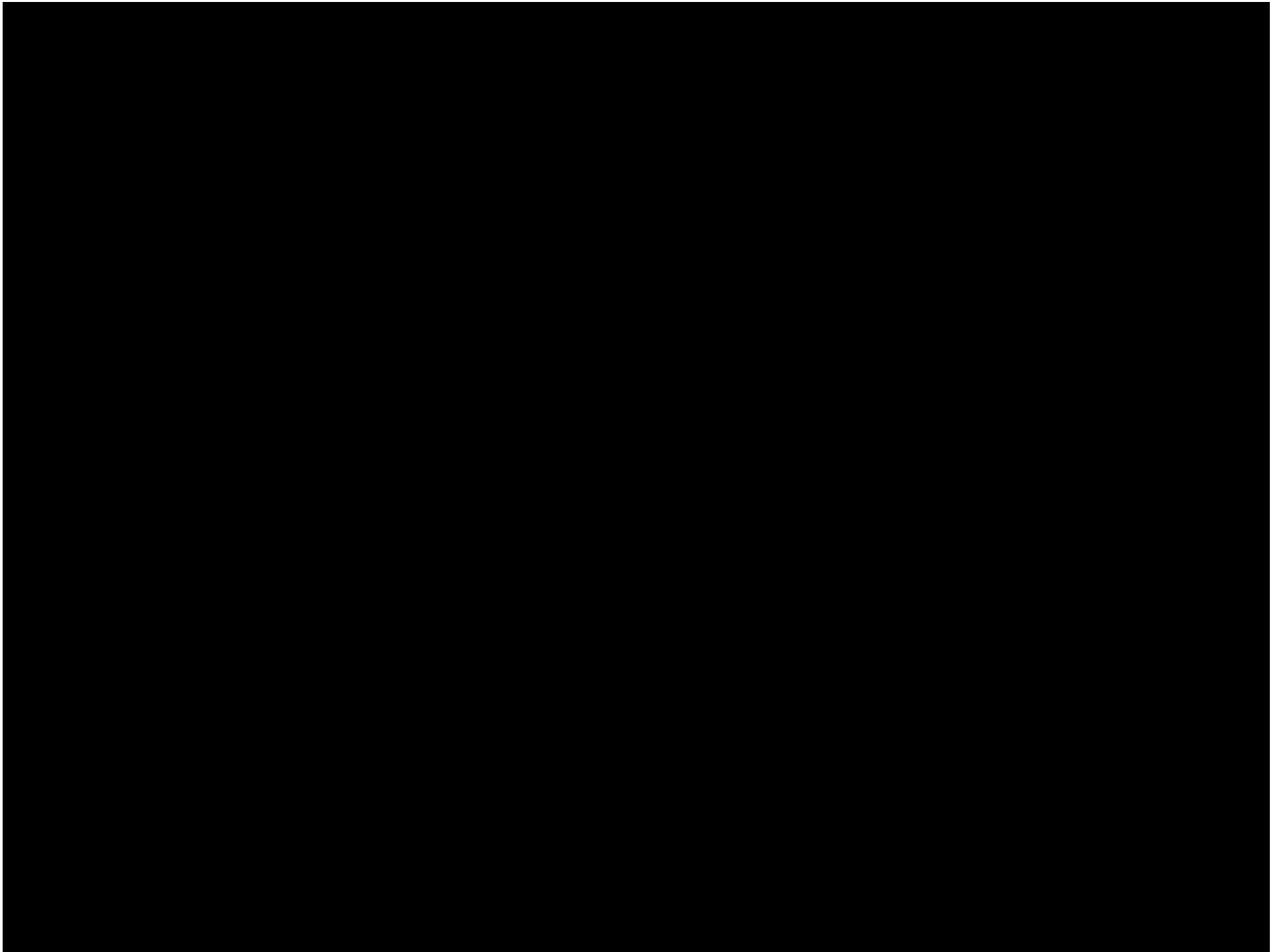
- indicate a weak but positive causal relation between the inclusion in the DJSI and profits.
- support the resource-based-view-of-a-firm, where CSR as product attribute increases the firms' profits.
- qualify CSR as a functioning signal for sustainable profits in the long run.



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Other recent studies

- Shen and Chang (2009)
 - Taiwan firms (20 CSR and 820 non-CSR)
 - quarterly data from 2005 to 2006
 - propensity firm matching

- Lee and Faff (2009)
 - firms in the DJSI and DJGI
 - from 1998 to 2002
 - random linear matching

- Lee, Faff and Langfield-Smith (2009)
 - same as Lee and Faff (2009)
 - probit estimation