
The heart of the matter: corporate social responsibility, governance and financial performance

The heart of
the matter

49

It is interesting to consider at what stage corporate social responsibility (CSR) activities ceased to be a “nice to have” and became a “must have” for global corporations. The word “global” is of course key to that question, as while global considerations are the same for everyone, regional, national and organisational considerations will differ depending on political, geographical and legal factors. What holds for a global firm based in the USA will differ to a global firm in Japan, China and so on. Nevertheless, sometime in the late twentieth century or early twenty-first century, a common acceptance of CSR developed, and wherever a firm was based it had to ensure its CSR bases were covered.

Of course, some organisations wanted to go further than that, and made it their business to extend CSR activities as much as possible. And it was not just limited to CSR – adjacent areas such as corporate governance (CG) and corporate financial performance (CFP) became central to corporate strategy. Mission and vision statements, company brochures and acres of marketing materials became devoted to showcasing the credentials of firms against the backdrop of this new perspective; sustainability became a necessity rather than merely a convenient handwagon to jump on. When this started, however, is difficult to pinpoint, although it should be noted that it is still very much starting and in its early phases.

Points of convergence

While there has been a good deal of research about CSR, CG and CFP in isolation, there has been little to further understanding of what happens deep within firms where these three areas come together. Developing knowledge on this is very much the broad aim of the article “Corporate governance and financial performance for engaging socially and environmentally responsible practices” by Simona Fiandrino *et al.* (2019). In it, they seek to dispel some of the contradictory beliefs and findings of previous investigations by looking at hundreds of firms in five different European countries – France, Spain, Germany, Italy and the UK.

Often, CSR is grouped together either with CG or with CFP. When it has been looked at in terms of its relationship with CG, it has either been as a method for CG, that CG is in fact a driver of CSR activity, or where both figure as a means to fulfil obligations to stakeholders. With regard to CSR and CFP, there has been considerable debate as to whether CSR activities benefit CFP, or whether good CFP can enable effective CSR. As a result of these contradictions, the authors seek to test the following four ideas with their investigation into European firms:

- (1) CG has a positive effect on CSR activities with regard to compliance.
- (2) CSR has a positive effect on CG in terms of management.
- (3) CFP has a positive effect on CSR activities with regard to compliance.
- (4) CSR has a positive effect on CFP in terms of management.



Corporate scoreboard

In order to judge the various CSR, CG and CFP activities, data was taken from over 350 firms across the five countries in Europe and assessed in terms of their scores on CSR, social activity, Environmental activity and governance. At a country level, the simple total of scores showed that UK firms fared less well when it came to CSR, environmental and social activities, but led in terms of governance. However, when looking in more detail the authors identified two peculiarities. First, UK firms are foremost in applying social and environmental practices, accounting for over half of all the firms listed from the five European countries. Second, only half of all the companies sharing their data showed that they were fully committed with higher scores.

When it comes to the four specific tests that the authors set themselves, following robust statistical analysis of the data, they were able to show that both CG and CFP lead to higher levels of CSR outcomes, proving that their first and third assumptions were correct. In addition, they also found that CSR activities influenced both CG structures and CFP, meaning that the second and fourth assumptions were also proved correct.

Practical implications

So, what does all this mean for those involved in social and environmental activities within organisations? Well, primarily it means that CSR, CG and CFP are inextricably linked at the heart of an organisation, and that there seems to be a symbiotic relationship where CSR drives both CG and CFP, and in turn they influence CSR. The authors note that often CSR is seen as the “missing link” between CG and CFP, and this has very real implications for investment decisions. Any board of directors can not only shout about their CSR activities as they rightly should, but also point to the fact it has a mediating influence on the effective governance and financial performance of an organisation. As such, investment in CSR activities can be straightforwardly be proposed and backed up by pointing to its central role to the sustainable running of the firm.

There are some caveats, however. First, the data comes from five quite different European countries, and there are a whole host of compliance differences between them which may account for some of the results. Also, the firms analysed were countries that are large, advanced Western European states and hence results may differ in smaller European countries or outside Europe altogether. Indeed, culture is very important when it comes to the implementation and support of CSR, and as such these factors should be taken into account when thinking of how firms work outside these major European countries. Despite these concerns, it is clear that it is perhaps the end of the beginning for CSR adoption, and that decision making in the future will try to ensure competitive advantage is sustainable in more ways than one.

Reference

Fiandrino, S., Devalle, A. and Cantino, V. (2019), “Corporate governance and financial performance for engaging socially and environmentally responsible practices”, *Social Responsibility Journal*, Vol. 15 No. 2, pp. 171-185, available at: <https://doi.org/10.1108/SRJ-12-2017-0276>