Sustainability, preventing a race to the bottom or enhancing a race to the top?

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Rotterdam, June 2014.

Petra Siereveld
Executive Summary

Corporate Social Responsibility (hereafter CSR) can be referred to as a firm’s noble intentions, but clearly, a profit-seeking aspiration is inevitable (Darwinism). Therefore, there’s quite big amount of research done on establishing a relationship between CSR and the financial performance of an organization. However, empirical evidence is still limited. Moreover, the existing empirical studies have focused mostly on the US. Most of studies are targeted on the firms in the US because of the availability of the performance indexes on CSR (f.e. the Dow Jones Sustainability Index). The European market has been largely unnoticed for quite some time.

Also research on the effects of CSR on financial performance is diverse. Both theoretical arguments and prior empirical works can be used to support the argument that CSR can have either a positive or a negative impact on financial performance. Prior researches have suggested both a positive and a negative impact of CSR on the firm’s financial performance (Aupperle, Caroll & Hattfield 1985; Ulmann, 1985). There has not been a consensus on the same.

Little research has been conducted in the field of Dutch organizations in CSR activities and its effects of financial performances, while this is a highly relevant topic in the current business environment. CSR Netherlands currently has some 2,500 businesses affiliated as partners, including around 70 branch organizations. Moreover, co-creation is easier in developed economies (Tilburg et al., 2012) and so can be a competitive advantage for companies in the Netherlands. With this research, I try to explore the relationship between CSR activities and financial performance for Dutch organizations. This study adds value by including CSR and financial performance in a conceptual model.

Purpose: The general purpose of this study is to empirically test the effect of CSR on financial performance. The research question guiding this thesis is: What is the influence of Corporate Social Responsibility activities of firms based in the Netherlands on their financial performance?

Methodology: The theoretical scope is developed through a literature study from CSR, financial performance and stakeholder theory. The hypothesized relationships were empirically tested by means of regression analysis using SPSS statistics software. The hypotheses tested are: (i) firms with a high involvement in corporate social responsibility - compared to the sector average - have a higher financial performance, and (ii) firms with a high openness and a high score on CSR have a higher financial performance.

Due to the difficulty to estimate costs and profitability to each CSR activity I used the scores of the Transparency Benchmark as an independent variable (CSR activities) and Return on Assets as a dependent variable (financial performance) for this research.

Findings: There was not found a strong relationship between CSR and financial performance. Moreover, CSR had a negative effect on financial performance. Findings further show that Openness (an indicator of international business of an organization) has a positive effect on CSR scores and financial performance. No empirical support was found for the hypothesized positive influence of CSR activities on financial performance of organizations. However, the literature research should trigger to see the benefits of CSR for the long-term performance. Besides, this research adds value by including CSR in a conceptual model and introducing mediating variables to financial performance.

Value: CSR is a ‘business case’, but seen from a social rather than a corporate perspective. Reducing the consumption in three dimensions (people, planet, and profit and also known as the triple bottom line) is an important step forward towards sustainable economic growth. Businesses that practice CSR are much more aware of social challenges and therefore have a stronger competitive position in
the long term. It is up to businesses to weigh up opportunities, dilemmas and challenges in terms of CSR activities. This thesis investigates the relationship between CSR activities and financial performance. A common-sense idea of scientific research is that the desired outcome is always a confirmation of the expectation. This is true in the sense that the aim is to test the theory about the object of study. Notwithstanding, that in this research there wasn’t a positive relationship found between CSR activities and financial performance, this research can be a way to learn more about the object by which one aims to learn more about CSR activities and financial performance. Moreover, this study extends the burgeoning theoretical and empirical literature into the contingent relationship between CSR and financial performance. The relationship is likely more complex than the available data and time allowed me to model herein and so I hope that this study will encourage future work, as well as for researchers as for organizations. It is becoming ever clearer that our future depends on all parties assuming responsibility for the “greater whole” (Elkington, 1997). The title of this research refers to this understanding that the future for all of us is linked with sustainability.
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Introduction

Over the past decades, CSR has become an important topic in the world of business. Companies came under increasing pressure to pursue socially responsive behavior from a variety of stakeholder groups including shareholders, employees, investors, consumers and managers. These stakeholders are more and more interested whether companies show responsible behavior towards social and environmental issues. Therefore, organizations started to report on their social, environmental and ethical activities.

The master thesis requires student to do an independent and individual research in the academic field. The topic of this master thesis is CSR and its effect on financial performance. This study examines the relationship between CSR activities and financial performance and will be empirical tested. The empirical domain are Dutch organizations whom anticipate in the Transparency Benchmark. With the Transparency Benchmark the Dutch ministry of Economic Affairs provides insight in the transparency of the sustainability reports of Dutch companies. The purpose of this list is to give an overview of the CSR activities, trends and progresses of the largest Dutch companies. The Transparency Benchmark deals with the visibility of CSR in the company which encourages companies to make progress of CSR in their organization. With support of an index, different aspects of quality in the CSR- and annual reports of organization in the Netherlands are examined and ranked in a list. This is a quantitative study and the aim is to contribute to theory development.

The reason I’ve chosen Corporate Social Responsibility (hereafter CSR) as the subject for my thesis is because of some inspirational lectures from Professor Rob van Tulder. What I enjoyed most about Van Tulder lectures was his enthusiasm for CSR. His passion for this topic was infectious, and I was completely enrolled in how powerful CSR can be for organizations. For example, mentioned in one of the colleges was the good performances of the company DSM whom boosting economic prosperity, environmental quality and social responsibility for the benefit of people, planet and profit.

As well there is little question that CSR and sustainability are of growing interest to businesses and investors. In 2013 72% of S&P 500 companies published a sustainability or CSR report (in 2011, just under 20%). Organizations focus to integrate CSR efforts into their core mission, strategy, business model and products/services.

This made me more curious towards the subject and so I’ve read the Harvard Business Review article that Porter co-wrote with Kramer (2006). In this article, Porter and Kramer articulate how CSR can help to improve the bottom line at the company. As well as in alignment with the book of Van Tulder (2012) they speak of the relations between CSR activities and financial performance. This thesis examines the factors behind this relations and explores or views are aligned with facts proven in science.

1.1 Background

In 1970, Friedman wrote that there is one and only one social responsibility of business. Business should use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game. In order to mitigate potential risks, many organizations have defined their responsibility even more largely than Friedman to include taking responsibility for their impact on the environment and social responsibility even when there is no legal or government obligation to do so. This because opinions about ethics are very subjective and they can have a big impact on an organizations’ image, and ultimately its profitability. For example, Nike faced consumer boycotts in the 1990s for its suppliers’ use of sweatshops in South Korea. Throughout the 1990s, Nike experienced fast growth after they moved their primary branches of production overseas. High
profits were reported and the number of factories increased to fulfill the consumers’ demand for Nike products. However, the new employees were generally poor inhabitants of the area surrounding the factory looking for any sort of income. Even though the suppliers paid market wages in the developing countries where they operated, the conditions those workers worked in and the compensation they received seemed unfair to many Western consumers, who used their purchasing power to express their dissatisfaction. The 1990s global boycott campaign and the impact that it has on an organization have now become a warning in how giant corporations can be brought to account by ordinary consumers. Moreover, it became an example of the importance of social responsibility in business models.

Firms gain by issuing sustainable business in their strategic choices (Porter and Kramer, 2006). In recent years this view on creating value has expanded. Business strategies are more focused on social, environmental, and economic domains and begun to embrace CSR as an important factor. The company activities need to be aimed at creating long-term value for all stakeholders. Incorporating CSR strategies in the overall activities, helps companies to better manage (reputation) risks and create long-term value (Tilburg et al, 2012).

Warren Buffet, leading American investor and philanthropist, argues that it takes 20 years to make a reputation and only five minutes to break it. Back to the case of Nike, in 1998 the damage to Nike’s reputation was beginning to be felt in the account books. Share prices were dropping and sales were weak. The organization hired a former Microsoft executive to be vice president for corporate and social responsibility, and expanded its corporate responsibility division to 70 people. In 2014 the brand alone was valued at $19 billion, making it the most valuable brand among sports businesses.

So “Just Do It”: build a sustainable business and you’ll create value?

1.2 Research gaps and practical an academic relevance
In existing literature sources, there’s quite big amount on establishing a relationship between CSR activities and the financial performance of an organization. I’m not the first to investigate whether it pays or gains to be good. Over the last several decades, researchers have published a lot of studies that have theorized and measured the financial returns associated with CSR activities. However, the existing empirical studies have focused mostly on the US. Most of studies are targeted on the firms in the US because of the availability of the performance indexes on CSR (for example the Dow Jones Sustainability Index). The European market has been largely unnoticed for quite some time.

Also research on the effects of CSR on financial performance is diverse. Both theoretical arguments and prior empirical works can be used to support the argument that CSR can have either a positive or a negative impact on financial performance. Prior researches have suggested both a positive and a negative impact of CSR on the firm’s financial performance (Aupperle et al. 1985; Ulmann, 1985). There has not been a consensus on the same.

Little research has been conducted in the field of CSR activities and its effects of performances of Dutch organizations, while this is a highly relevant topic in the current business environment. By 2010, CSR reporting became mandatory for publicly traded Dutch companies. The percentage of companies in the Netherlands reporting on their CSR initiatives grew from 63 percent to 82 percent between 2008 and 2011 (KPMG International Cooperative, 2011).

With this research, I try to explore the relationship between CSR and financial performance for Dutch organizations. This study adds value by including CSR and financial performance in a conceptual model.
1.3 Research Proposition
To create value firms are likely to; (i) locate an unsatisfied demand for a particular product or service, (ii) create a barrier to make it more difficult for other firms to compete, (iii) produce products or services at lower costs than the competition and/or (iv) be the first to develop a new product. Porter describes this very strong in his article “The Five Competitive Forces That Shape Strategy” (1979). Porter and Kramer (2006) proposed that investments in CSR expands the firm value. The research from Tilburg et al. (2012) conducted on firms also suggested a positive relationship between CSR investment and financial performance on a long-term basis. Moreover, many scholars have proved this objective of a higher financial performance with their studies.

So, case proven? No, not entirely. Actions taken by the management are diverse and there is no single formula that will ensure that the management of the organization will efficiently profit from the social strategic objectives of the organization. Various arguments have been made regarding the relationship between an organization’s social responsibility and their financial performance. For example, researchers find that organizations face a trade-off between costs from CSR. This put them at an economic disadvantage compared to other, less responsible organizations (Aupperle, Caroll & Hattfield 1985; Ulmann, 1985). Also possible explanation for differences in outcomes can be due to the use of other variables such as firm size, industry, country location/governmental regulation and corporate strategy (Wagnet et al., 2002).

Going Dutch, Netherlands-based global brands such as Philips, Unilever, AkzoNobel, DSM and PostNL have emerged as proponents on doing CSR according to global media. Moreover, the Dutch government expects that Dutch companies working across borders embrace the OECD Guidelines for Multinational Enterprises as standard (www.rijksoverheid.nl). Agentschap NL, as a division of the government for businesses, makes explicit that the facilitating role of the Dutch government is a role of facilitator and driver of the debate on CSR. Their vision is that CSR can best be promoted on a voluntary basis and that additional regulation is unnecessary. Companies know that CSR pays off and indicate that the Dutch government facilitates this process wherever possible.

This thesis test whether higher levels of CSR pays off, or in other words, purchasing financial performance. The research question guiding this thesis is:

What is the influence of Corporate Social Responsibility activities of firms based in the Netherlands on their financial performance?

1.4 Overview
After this chapter, chapter 2 explores the relevant theoretical background. In chapter 3 I’ll explain the methodology and data used for the research. I will explain how data was gathered and in which way it is analyzed. After that, chapter 4 will be about analyses and outcomes of the data. Finally in chapter 5 I will deepen the results to answer the research question and discuss research limitations and recommendations for further research.
2 Theoretical background

A positive relation between CSR and firm performance has prevailed in many studies (Epstein 1996; Orlitzky et al., 2003; Goll and Rasheed, 2004; van Beurden and Gössling, 2008). Attention to CSR domains and efficient use of resources improves relationship with stakeholders, which could result in an increase of company value, and reduction of taxes and regulations (Graeme et al., 2006). For instance, there are a lot of great success stories about organizations that create financial performance due to CSR.

For example Unilever, whom identified various ways of reducing their environmental impact. Reducing the impacts of their own manufacturing operations – eco-efficiency – is a core part of their CSR strategy (Unilever sustainable living plan). In 2013, they invested €15 million in energy, CO2 emissions and water reduction projects globally. Those reduced global CO2 emissions by 2.5%, global energy use by 2% and water by 1.5%. This achieved an average payback of less than two years. The link between eco-efficiency and better financial performance in this case is clear. New technologies are expected to deliver not only eco-efficiency benefits but also a good return on investment.

Another case-example is Nike. In 2007, Nike conducted (along with SustainAbility, a consulting firm) a scenario planning on global trends such as water, health, and energy, alongside increasing worldwide concern about climate change. This was not just about sustainability strategy, Nike became hereby also fully aware of their dependence on oil for materials and fossil fuel energy (Hollender and Breen, 2010). The waste production, use of materials and water by contract manufacturers also posed major risks. All of these issues were deemed significant and it eventually led to a long-term vision to build a sustainable business and create value for Nike and their stakeholders by decoupling profitable growth from constrained resources (Nike, 2012/2013).

However, as mentioned in previous chapter also various arguments have been made regarding the relationship between an organization’s social responsibility and their financial performance (Aupperle, Caroll and Hattfield 1985; Ulmann, 1985).

The literature review discusses the current state of literature regarding CSR and financial performance. By going in depth into academic literature, research hypotheses are developed. This literature review starts with the definition CSR, followed by describing the stakeholder theory. Then, prior findings regarding benefits of CSR and financial performance are discussed. Finally, the concepts are connected to each other by stating the hypotheses, followed by the conceptual model.

2.1 Corporate Social Responsibility

Regarding CSR there are different definitions and approaches used in studies. Therefore, I found a variety of meanings. For instance, an international study from Dahlsrud in 2008 analyzed 37 different meanings of CSR. A lot of the definitions are focused on doing responsible business regarding People, Planet and Profit for the long term. To define the scope of CSR I take the definition of the International Organization for Standardization, known as ISO. ISO’s strategic advisory group on CSR describes CSR as “a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society” (2002). This definition is in line with the “triple bottom line”, the principle of sustainability on focusing on economic prosperity, environmental quality and social justice. Companies aiming for sustainability need to perform not against a single, financial bottom line but against the triple bottom line (Elkington, 1997).
2.2 Stakeholder theory

In a paper on stakeholder theory, Freeman (1984) states that organizations have relationships with many groups and that these stakeholders both affect and are affected by the actions of the organization. Stakeholder theory, which has emerged as a dominant paradigm in CSR, has evolved widely in the literature on CSR. According to Elkington (1997) CSR is considered as a deliberate choice of organizations to achieve the three dimensions of growth (people, profit and planet) and maintaining relations with various shareholders on the basis of transparency and dialogue.

Stakeholder theory suggests that an organization’s survival and success is recognized by the achievement of its economic (e.g. profit maximization) and non-economic (e.g. corporate social performance) objectives in the interest of their stakeholders. The theory indicates that it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners of the corporation. It says that for any business to be successful it has to create value for customers, suppliers, employees, communities and financiers. Taken together, these various groups are called stakeholders. The theory says that you can’t look at any one of those stakeholders in isolation, their interest has to go together and the job of a manager or entrepreneur is to figure out how the interests of customers, suppliers, communities, employees and financiers go in the same direction (Freeman, 2010).

Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that stakeholders perceive to be important, because otherwise these stakeholders might withdraw their support for the organization. Note, the theory state that variables needs time in order to develop meaning for the organization. Moreover, the variables numbers of stakeholders can be enormous. Any individual, group, organization, institution that can affect as well as be affected by an individual’s, group’s, organization’s, or institution’s policy or policies (Elkington, 1997).

2.3 Strategic Aspect of CSR

Franklin (2008) describes his magazine how the combination of a strong commitment to CSR and strong commercial competence can lead to a good chance of success. He acknowledges the profit for businesses regarding CSR. Strategists Hamel and Breen (2007) shows in their book how focus on CSR for a business can be good because it has become a serious part of the competition for talent. Willard shares this thought and underlines also this and other advantages in his book (2013).

Improved relationships with stakeholders may bring economic benefits (Moussavi en Evans, 1986). In this line of thought, the dialogue literature describes the mechanism through which dialogues with stakeholders can create value. A proactive dialogue in which dilemmas are shared openly stimulates a mutual learning process that spurs creativity and innovation (Flick, 1998; Isaacs, 1993). To achieve the successful implementation of CSR, managers must build bridges with their stakeholders – through formal and informal dialogues and engagement practices – in the pursuit of common goals, and convince them to support the organization’s chosen strategic course (Andriof and Waddock 2002). The basic belief that CSR can be good for business clearly drives corporate interest in CSR (Kotler and Lee 2005), based on the reasoning that organizations create a competitive advantage by integrating non-economic factors (Porter and Kramer 2006).

2.4 Motivation for CSR

CSR is often known as the duty of management to take action to protect both the welfare of society and to improve as the interests of the organization itself (Wisner et al., 2006). The purpose of CSR is to create value for the firm, its consumers and the society as a whole, besides generating higher revenues (Tilburg et al, 2012). Organizations that make the right choices and build focused,
proactive, and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack (Porter and Kramer, 2006).

Several previous research show there is positive correlation between CSR and corporate financial performance. Epstein (2001) find there is strongly positive impact for firms that engage in CSR on firm value. CSR also have positive and significant relationship with corporate financial performance (Tilburg et al 2012). Cochrans, Ross, Westerfield, Jaffe and Jordan (2013) also have same conclusion. They conclude that by reaching out to its stakeholders with CSR, corporation could increase their revenues and profits, which in turn improves their chance of surviving in the long run.

2.5 Different reflective
Although CSR behavior does appear to have generally positive impacts, negative consequences of CSR are also marked. Different views and evidence were presented about the social, environmental and economic impacts of CSR behavior.

The impacts of CSR and the extent are criticized and questioned. The criticisms focused particularly on CSR impacts which were seen by some stakeholders as inadequate compensation for the impacts of corporate activities or products (Mackenzie and Collin, 2008; VanDijk 2006 and 2007). Or, questioned, that CSR activities may partially be artifacts of previous high financial performance (McGuire et al. 1988, Waddock et al. 1997).

Barnett and Salomon (2012) argued that whether it pays to be good depends upon how well firms are able to capitalize on their social responsibility efforts. They indicate that improving social performance is subject to a learning process. In order for some organizations to increase their capacity to benefit from investments in CSR, they might have to endure a period of decreased financial performance. This is consistent with the learning effect and suggest that improving financial performance through social investments is not as simple as a one-on-one win situation.

2.6 Key articles guiding this research
The majority of studies indicated positive evidence and is presented at various levels. However, there are also publications indicated negative impacts, criticizing and questioning the impacts of organizations CSR behavior. And then there are studies that presented both positive and negative impacts, often highlighting lessons learned and areas for improvement. Impacts were reported mainly at company level. Fewer studies presented evidence at local level than at macro (national economy) level.

The overall results of empirical investigations linking CSP to financial performance have been mostly on macro level. Commonly, empiricists have tested a model: the direct correlation between a firm’s social behaviors and financial performance. In my research I review the theoretical bases of the majority of these studies.

Table 1 describes the purpose, methodology, findings and theory of the key articles guiding this research. These are summarized in order to better understand the literature review, the research method choice and the nature of the relationships tested in this study.

<p>| Source: Porter and Kramer (2006) | Purpose: Propose a way to look at the relationship between business and society that does not treat corporate success and social welfare as a zero-sum game. | Methodology: Exploratory research and case study | Findings: CSR will become increasingly important to competitive success. | Theory: Value chain |</p>
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<tr>
<th>Author(s)</th>
<th>Title</th>
<th>Methodology</th>
<th>Findings/Implications</th>
<th>Notes</th>
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<tr>
<td>Kolk and Tulder (2010)</td>
<td>Examines the extent to which CSR activities and sustainable development implications have been addressed in International Business research</td>
<td>Exploratory research</td>
<td>Identifies gaps in the body of knowledge and approaches. It also introduces recent studies that yield interesting findings, pointing at promising areas for further research.</td>
<td>Not specified</td>
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<td>Barnett and Salomon (2012)</td>
<td>Examine that the relationship between CSP and CFINANCIAL PERFORMANCE is U-shaped.</td>
<td>Regression analysis of 1,214 firms and 4,730 firm-year observations from 1998–2006.</td>
<td>Found a U-shaped relationship between CSP and CFINANCIAL PERFORMANCE. Also discovered that firms with the highest CSP generally have the highest CFINANCIAL PERFORMANCE.</td>
<td>Not specified</td>
</tr>
<tr>
<td>Schuler and Cording (2006)</td>
<td>Present a theoretical model of the CSP-CFINANCIAL PERFORMANCE relationship as it relates to consumers.</td>
<td>Exploratory research</td>
<td>Narrowing the focus to explain the behavioral reactions of one stakeholder group to CSP, it can better be understand the causal linkages between social and financial performance.</td>
<td>Planned behavior</td>
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<td>Kim, Li and Li (2014)</td>
<td>Investigates whether CSR mitigates or contributes to stock price crash risk.</td>
<td>Empirical research on weekly returns and the asymmetric volatility of stock returns by using data of 12,978 U.S. public firms from 1995 to 2009.</td>
<td>Findings support the mitigating effect of CSR on crash risk.</td>
<td>Not specified</td>
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<td>Ho Kang, Lee and Huh (2010)</td>
<td>Examines different impacts of positive and negative CSR activities on financial performance of hotel, casino, restaurant and airline companies</td>
<td>CSR data from KLD Research and Analytics that covers 80 indicators and provides CSR rating information for companies listed on the S&amp;P500 and Russell 3000 Indices from 1991 to 2007.</td>
<td>Analysis for the hotel and the restaurant industry shows a positive impact of positive CSR activities on firm value. For the airline industry, the study found the existence of a negative impact of positive CSR activities on profitability.</td>
<td>Not specified</td>
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<td>Margolis and Walsh (2003)</td>
<td>Examine the consequences for organizational research and theory by appraising an empirical relationship between a corporation’s social initiatives and its financial performance.</td>
<td>Research on 30-year CSP-CFINANCIAL PERFORMANCE empirical research and the standing of stakeholder theory</td>
<td>Embraces the tension between economic and broader social objectives and propose it as a starting point for systematic organizational inquiry.</td>
<td>Stakeholder theory</td>
</tr>
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<td>Ullmann (1985)</td>
<td>Give suggestions to improve inconsistent findings for studies of the</td>
<td>Exploratory research</td>
<td>The situation pertaining to the relationships among social</td>
<td>Not specified</td>
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<td>Authors and Year</td>
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<td>Wisner, Epstein and Bagozzi (2006)</td>
<td>Demonstrate that firms with an alignment of management commitment, strategic planning and proactive managerial actions toward environmental performance are also the firms that achieve the best environmental performance.</td>
<td>Data from a questionnaire to environmental executives of 179 firms, randomly chosen from the 1992 World Environmental Directory.</td>
<td>By choosing to invest resources in implementing and environmental strategy, companies creates value for the organization.</td>
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<td>Epstein and Roy (2001)</td>
<td>Give understanding of both the drivers of social performance and the impacts of that performance.</td>
<td>A clearer understanding of the impacts of the various past, pending and future corporate decisions on both the corporation and society.</td>
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<td>Lin, Yang and Liou (2009)</td>
<td>Measure the impact of CSR on financial performance.</td>
<td>Between 2002 and 2004, examined 1000 Taiwanese cases in which firms include R&amp;D expenditures as one of the business strategies for sustainable development.</td>
<td>Identified a positive relationship between CSR and financial performance.</td>
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Table 1: Literature overview

Overall the literature overview concludes there is a positive relationship between CSR with either firm value or profitability. However, there are other studies that conclude there is no relationship or weak relationship between CSR and firm value or profitability. McGuire et al (1988) conclude from their research that CSR may partially be artifacts of previous high financial performance. Ho Kang et al (2010) conclude a negative impact of CSR to firm value in the airline industry.

Epstein et al (2001) have suggested that the samples used and the measures of CSR and financial performance might be responsible for the ambiguous results. Similarly, Porter and Kramer (2006) have pointed to the shortfalls of past measures of CSR activities.

In the past decade, CSR has been pointed as the need for managers to focus on the social, environmental and economic dimensions of businesses activities, in order to help shape the (sustainable) future of the organization (Barnett et al 2012). The concept CSR consist in issue-, stakeholder-, country-, industry- and firm-specific factors (Kolk et al., 2010). CSR defined as business contribution to sustainable development must not only ensure financial performance, but they must
respond to societal and environmental concerns and value. Application of CSR should not be treated as a cost, it is an investment. Gains will be earned in the long-way (Epstein et al., 2001).

Barnett et al. (2012) suggest that the relationship between CSP and financial performance is not linearly positive or negative, but curvilinear. They suggest that both critics and proponents for CSR are right, to a degree. For some firms, it pays to be good, but for others, it does not. They imply that firms should view CSR as a long-term investment in creating the capacity to influence stakeholders. If a firm has little ability, or desire, to build such a capacity, then social responsibility appears to be a poor financial investment. However, if a firm is able to build such capacity, instead of focusing on only ad-hoc activities, it may find that it really pays to be really good.

2.7 CSR in the Netherlands

When Elkington (1997) published his book, most people in the Netherlands (and elsewhere) rephrased environmental issues in terms of sustainable development. The awareness has spread about the elements that determine the long-term survival of companies and societies (Idowu et al., 2015). Elkington described how people, planet and profit have to be in balance, lest they damage each other (the phrase “cannibals with forks” referred to a reality in which people in a very sophisticated way consumes itself and the future becomes unsustainable. This required a whole new thinking about organizing, doing business and using resources. The PPP-approach offered managers and other decision-makers tools for working in a sustainable way. Also the Netherlands government became more active on the topic of CSR. It was one of the first countries, with Finland in 1997, to enact Mandatory CSR reporting.

As mentioned earlier Dutch companies have emerged as proponents of CSR (paragraph 1.2). Those companies that where mentioned score well on the Dow Jones Sustainability Index (KMPG, 2013; Transparency International, 2011). For example, Unilever NV, Akzo Nobel NV and ING Group NV are industry group leaders in the results of 2014. The Dow Jones Sustainability World Index was launched in 1999 as the first global sustainability benchmark. The index is offered cooperatively by RobecoSAM Indices and S&P Dow Jones Indices.

In recent years, partly as a consequence of the policy pursued of the Dutch government, CSR has become a much more familiar concept in the Netherlands and is being practiced increasingly by Dutch businesses. Research by CSR Netherlands shows that nearly all Dutch businesses are familiar with the concept of corporate social responsibility (CSR Netherlands, 2013). Dutch businesses acknowledge the importance of providing transparency about their actions and the results they achieve (Tilburg et al. 2012). Although the government has a big influence for addressing issues, the contribution of private firms can be substantial. For example, the government sets the minimum standards for CO2 environment rules, but a company can further improve the environment by mitigate the effects furthermore and increase her carbon footprint. The Dutch government presumes that companies working across borders embrace the OECD Guidelines for Multinational Enterprises as standard. In addition, the government encourages companies to be transparent about CSR activities at home and abroad. In 2004, the knowledge center MVO Nederland is introduced, which still is the biggest advisory task on this moment. The awareness around CSR was not a hype but a change in doing business and resulted in the development of guidelines and a growing development in advisory in for example websites, conferences and programs. The Netherlands has an active incentive policy on social reporting in the form of the Transparency Benchmark. The Transparency Benchmark, conducted annually for the Ministry of Economic Affairs, ranks the 500 or so largest Dutch companies in terms of the transparency of their sustainable business practices and CSR.
2.8 Impact on Profitability

Based on section 2.6, I find a lot of findings in scientific research on positive relations between social and finance performance. The following model for organizations developed by Epstein et al. (2001), as drivers of sustainability and financial performance is based on social, environment and financial dimensions:

![Sustainability model diagram](image)

**Figure 1: Drivers of sustainability and financial performance, adapted from Epstein et al (2001)**

Arrow 1 and 2 shows the input that affects the performances and actions that can occur. The result on those actions results in arrow 3 and all together they have an impact on the long term corporate financial performance of the organization. The input, processes and results are therefore all important for the financial performance ultimately. Moreover, co-creation is easier in developed economies (Tilburg et al., 2012) and so can be a competitive advantage for companies in the Netherlands.

In summary, viewing CSR as a valuable resource, I hypothesize a positive relationship between CSR and financial performance. My first hypothesis is:

**HYPOTHESIS 1:** *Firms with a high involvement in corporate social responsibility - compared to the sector average - have a higher financial performance.*

The possible impact for different sectors are recognized (Ho Kang, Lee and Huh, 2010). The prior literature and research indicates that the relationship between CSR activities and the financial performance of the firm varies with industry (Ho Kang et al., 2010). Keeping in mind that the study is a cross-sectional analysis different industries, I expect the results to be different for each industries.

2.9 CSR in international business

As mentioned in paragraph 2.6, it is interesting that however the most studies often find a positive relationship between CSR activities and financial performance, other studies found that these CSR activities can have a negative impact on profitability. In the key articles (section 2.6) a possible explanation for these differences given is the increased globalization and some companies encounter a wide range of CSR challenges (Tilburg et al 2012). As a consequence of globalization, businesses get a more central position and so they have to become responsible for their actions (Elkington, 1997).
Elkington (1997) comes to the conclusion that because of the shift of global demographical and ecological changes, businesses will have to restructure itself in a sustainable way. While some classify legal challenges, others are related to challenges with respect to compliance with the code of conduct of their suppliers, and local as well as global standards. Companies that want to stay competitive in the market and continue doing business with international clients need to start managing their responsibilities more strategically and systematically (Elkington, 1997; Hollender et al., 2010).

As the globalization intensifies and the scope of cross-border business activities grows, it becomes difficult to subject internationally operating businesses to a national regulation. The particular problem is that expansion into less developed countries if often motivated by the desire to benefit from cheaper labor. International companies being pressed by consumers to provide high quality but cheap goods, use the possibility to outsource operations to developing countries in order to lower their costs (Hollender and Breen, 2010). This not only implies greater liabilities for organizations but also a more complex situation for implementing CSR across the whole value chain, from beginning to end (Kolk et al., 2010).

Differences in standards between different countries and regions can pose some difficult ethical dilemmas for companies (Kolk et al., 2010) However, organizations benefit to link their CSR strategies to core activities in order to manage international operations (Epstein, 2008). So therefore, given that international business changes adoption of the social responsible behavior among businesses, my second hypothesis is:

**HYPOTHESIS 2:** Firms with a high openness and a high score on CSR have a higher financial performance.

This is interesting while there has also been an enormous increase in attention for corporate social responsibility internationally, as demonstrated by the European Commission’s on CSR European Commission, 2011).

**2.10 Conceptual model**

The next figure shows the suggested conceptual model, including the hypotheses and their directions, guiding this study.
As has been indicated before, prior studies found mixed results on the relationship between CSR and financial performance. In addition to the CSR score, similarly to most previous researches, I add several control variables. Evidences from prior studies have concluded that firm size has an influence on the CSR practices (Ntim & Soobaroyen, 2013). Also, from the perspective of economy of scale, larger firms tend to perform better than the small firms indicating a positive relationship between the firm size and profitability (Kang, Lee, & Huh, 2010). Researchers had company size approximated by such measures as total assets, revenue, number of employees or an index rank. Therefore I integrate ‘Number of Employees’, ‘Total Assets’ and the ‘Net Income’ as variables. In literature (Leamer, 1988) Openness is been considered as a moderator factor for return measures of financial performance regarding CSR in international business and is therefore also included.
3 Methodology and Data

The main argument for a positive relationship between CSR and financial performance is that CSR is an indicator of the ability to deal effectively with the company’s strategy for the future and with stakeholders’ demands. Satisfying stakeholders’ explicit and implicit demands, gaining their support and/or averting potential threats is thought to improve company’s brand. Ultimately, this can result in an increase in sales, higher market shares and customer loyalty (Epstein, 2008).

Although it can be good reasoned that being socially responsible for business benefits the organization, it is complicated to try to measure its effects separately. Ideally, it should be possible to keep all other variables/factors constant and then measure a company’s financial performance before and after adopting CSR principles. As this is not possible, I’ll use empirical methods to identify the relationship between a company’s social responsibility and its financial performance. This based on the literature review. Namely, with an intention to validate the impact of CSR on the financial performance of organizations, researchers have repeatedly used regression analysis. The study of McWilliams and Siegel (2000) defined an econometric model with financial performance as a function of CSR, size, risk and industry. McWilliams & Siegel (2000) further included investment in R&D and advertising intensity of the industry in their model, and evaluate the results. Mahoney and Roberts (2007) evaluated the relationship between CSR and financial performance of firms in Canada. The regression model in their study used financial performance measured by return on assets and return on equity as dependent variables, corporate social performance as independent variables and a few control variables such as firm size, debt-level and industry.

3.1 Measuring Independent Variable – Corporate Social Responsibility

Some argue that CSR cannot be given a value. Although this is a valid point considering it’s hard to calculate social and environmental impacts, it is likely that attaching a value to companies can be made. Literature says that better insight in the value of societal impact by transparency and reporting can improve reputation (Elkington, 1997; Epstein, 2008; Tilburg et al., 2012). Ultimately, this can result in an increase in sales, higher market shares and customer loyalty.

In order to measure CSR I use the Transparency Benchmark (managed by the Ministry of Dutch Economic Affairs). Since 2004, the Dutch Ministry of Economic Affairs has organized this annual Transparency Benchmark, to assess the extent to which businesses account for their activities in the area of CSR in their annual reports. The Transparency benchmark is an annual research on the content and quality of corporate social responsibility reports of Dutch companies.

The criteria of the Transparency Benchmark are formed through the guidelines of Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Organization for Economic Co-operation and Development (OECS)-guidelines and the European Union (EU) governance and focus on financial and non-financial information about People, Planet and Profit. In discussing CSR, one often discusses the three dimensions People, Planet and Profit (Elkington 1997, Barnett et al 2012, Tilburg et al 2012). Therefore, I find the scores of the Transparency Benchmark a valid measure-instrument for CSR activities.

For a correct understanding of the Transparency Benchmark it is important to underline that the transparency in reporting is measured and not a company’s actual activities or results in the field of CSR. The measured criteria are separated in content-oriented and quality-oriented criteria. The whole publication of criteria can be found on the website www.transparantiebenchmark.nl, but a summary is given in the table below:
Content-related criteria (100 points) | Quality-related criteria (100 points)
--- | ---
Profile (15 points) | This category debates whether reporting gives insight or a description on topics such as staff size, main products and services, core processes of the organization and the influence on people, environment and society, ownership - and the position within the value chain a company operates in.

Relevance (20 points) | The category “Relevance” addresses the question of whether the reporting on CSR-issues and dilemmas, are actually considered as being relevant by the stakeholders. Subjects should be material and include firm- or sector specific characteristics of CSR. In other words does the report meets expectations of the users?

Strategy and Policy (20 points) | This category studies the vision of the organization with respect to corporate responsibility and how support is provided by highest management. A company should clarify her strategy and her vision related to CSR. This includes an elaboration on supply chain responsibility. The organization should include examples of interventions/ policy.

Clarity (20 points) | This category studies the comprehensiveness, transparency and accessibility of the report. The information in the report should be understandable for its users and readers in order to avoid wrong interpretation. This means the format should be aligned with the knowledge and experience of users. A good design, systematic classification of topics, clear verbal use and an explaining unfamiliar terms increase understanding.

Governance structure and management approach (25 points) | This category examines whether reporting provides an insight into the governance structure and management process regarding CSR. It should be clear how the involvement in CSR is embedded in the company. Also the distribution and nature of tasks and responsibilities, including the structure of rewarding systems in relation to CSR performance, is analyzed.

Reliability (20 points) | This category covers “Reliability.” Reporting is reliable when it is accurate, complete and offers a good representation of the actual situation. This category examines the way the report and content are verified by an independent external party. Verifications can be conducted by subject-matter specialists such as accountants, civil society organizations, industry experts and stakeholder panels.

Results (30 points) | This category examines to what extent reporting is transparent about economic, environmental and social aspects of her operations.

Involvement of stakeholders (20 points) | The category “Stakeholder engagement” examines the policy of the organization with respect to stakeholder engagement and how this involvement of stakeholders is ensured. Questions relate to how stakeholders are identified, how dialogue is held and what kind of influence the dialogue had.

Social reporting policy (10 points) | This category examines whether the reporting provides insights in the reporting policy, reporting process, time-period, scope and focus with respect to reporting itself.

Contextual consistency (20 points) | The category “framework” examines to what extent results of the organization with respect to CSR are placed in a broader perspective. Questions relate among others to business strategy, trends and developments in the sector, and geographical context.

Table 2: Criteria of the Transparency Benchmark and explanation

Moreover, I looked to some individual scores to analyze whether the CSR scores make sense. One particular company draw my attention, SBM Offshore N.V. This because SBM Offshore NV (hereafter, SBM) also has been selected to be part of the respected Dow Jones Sustainability Index for a fifth consecutive year. Notable, SBM shows a decrease in her score of 2012 to 2013 in the Transparency Benchmark. The scores of SBM in the Transparency Benchmark for the period 2004-2013 are presented in table 3.

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<td>Profile</td>
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<td>5</td>
<td>6</td>
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<tr>
<td>Strategy and Policy</td>
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<td>14</td>
<td>5</td>
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<td>10</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>0</td>
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<tr>
<td>Governance structure and management</td>
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<td>9</td>
<td>9</td>
<td>6</td>
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<td>3</td>
<td>4</td>
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<tr>
<td>Results</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
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<tr>
<td>Social reporting policy</td>
<td>1</td>
<td>13</td>
<td>4</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Relevance</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Clearness</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>2</td>
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The criteria and procedures of the Transparency Benchmark were not changed in 2013 compared to 2012. To analyze whether the sector also showed a decrease I made a sector analysis. Table 4 shows the average scores of the sector "Construction and Maritime":

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<td>Profile</td>
<td>8.21</td>
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<td>6.11</td>
<td>3.67</td>
<td>1.74</td>
<td>1.74</td>
<td>2.11</td>
<td>2.37</td>
<td>1.81</td>
<td>1.41</td>
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<td>Strategy and Policy</td>
<td>9.63</td>
<td>9.04</td>
<td>7.15</td>
<td>5.06</td>
<td>2.59</td>
<td>2.85</td>
<td>2.93</td>
<td>2.44</td>
<td>2.3</td>
<td>1.78</td>
</tr>
<tr>
<td>Governance structure and management</td>
<td>5.88</td>
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<td>4.33</td>
<td>3.57</td>
<td>0.59</td>
<td>0.81</td>
<td>0.81</td>
<td>1.48</td>
<td>1.41</td>
<td>1.41</td>
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<tr>
<td>Results</td>
<td>3.13</td>
<td>2.74</td>
<td>1.52</td>
<td>0.56</td>
<td>0.48</td>
<td>0.41</td>
<td>0.26</td>
<td>0.33</td>
<td>0.44</td>
<td>0.63</td>
</tr>
<tr>
<td>Social reporting policy</td>
<td>6.42</td>
<td>6</td>
<td>3.42</td>
<td>2.87</td>
<td>0.56</td>
<td>0.59</td>
<td>0.56</td>
<td>0.74</td>
<td>0.59</td>
<td>0.56</td>
</tr>
<tr>
<td>Relevance</td>
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<td>4.04</td>
<td>3.13</td>
<td>2.04</td>
<td>2.3</td>
<td>2.19</td>
<td>2.07</td>
<td>1.74</td>
<td>1.59</td>
</tr>
<tr>
<td>Clarity</td>
<td>4.38</td>
<td>3.44</td>
<td>2.78</td>
<td>1.96</td>
<td>1.3</td>
<td>1.22</td>
<td>0.78</td>
<td>1.07</td>
<td>1</td>
<td>0.78</td>
</tr>
<tr>
<td>Reliability</td>
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<td>4.81</td>
<td>3.89</td>
<td>3.13</td>
<td>1.93</td>
<td>1.78</td>
<td>1.63</td>
<td>0.59</td>
<td>1.3</td>
<td>1.07</td>
</tr>
<tr>
<td>Involvement of stakeholders</td>
<td>4.21</td>
<td>3.67</td>
<td>2.19</td>
<td>0.81</td>
<td>0.33</td>
<td>0.3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Contextual consistency</td>
<td>32.17</td>
<td>27.19</td>
<td>21.79</td>
<td>16.77</td>
<td>1.3</td>
<td>1.04</td>
<td>0.81</td>
<td>0.96</td>
<td>0</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>85.41</td>
<td>73.68</td>
<td>57.22</td>
<td>41.53</td>
<td>12.86</td>
<td>13.04</td>
<td>12.08</td>
<td>12.05</td>
<td>10.59</td>
<td>10.53</td>
</tr>
</tbody>
</table>

Table 4: Result SMB Offshore N.V. 2004-2013

The sector analysis, shows no decrease in the overall score from 2012 to 2013 (Table 4) I investigated the reports of SBM. SBM reports on the Global Reporting Initiative (GRI) at level C. Other organizations in this sector report mostly higher: BAM A+, VolkerWessels B+, Boskalis B, Heijmans B+. The GRI aims to help companies and organizations to move sustainability target integral part of business and to report in a structured way. It has drawn up a framework of guidelines that companies can use. The companies can under different levels prepare their reports, ranging from low (level C) to high (level A).

For SMB, it is striking that in the 2011 report (related to the CSR score in 2012) is based on G3.1 guidelines and the report of 2012 (related to the CSR score in 2013) on G3, a less strict standard. Moreover, especially what stands out is that in 2011, the sustainability report has been integrated into the annual report (containing both non-financial and financial information, in addition to the basic economic information) unlike 2012 and 2013. To this end, my conclusion is that the lower score of SBM in 2013 compared with 2012 is not strange and does not need to be removed/modified in the dataset.

3.2 Measuring Dependent Variable – Corporate Financial Performance
To compare the company’s financial performances over time I use a ratio analyze. I measure financial performance by the accounting ratio return on assets (hereafter ROA). ROA is the net income divided by the total assets of a company. An analysis on ROA gives an idea of how effectively the company is
converting the money it has to invest into net income. In this study, I employ ROA as a dependent variable not only because it is the standard in the CSR literature, but also because it is a widely adopted measure of financial performance in the broader field of strategy (e.g., King and Zeithaml, 2001; McNamara, Luce, and Tompson, 2002; Wan and Hoskisson, 2003; Lavie, 2007; Derfus et al., 2008; McNamara, Halebian, and Dykes, 2008).

I’ll use the financial data from Dutch companies to the time period 2005 to 2013 collected by the Netherlands Chamber of Commerce. This data is based on the annual reports (the balance sheet and income statement data) of each individual organization.

3.3 Effect International Business
In the link between CSR and financial performance, there has been some theoretical and empirical research arguing that the positive relationship between CSR and financial performance is caused by international business.

Most CSR strategies are driven by business practices and triggered by motives of development. Epstein (2008) states the challenge that international diversification of organizations increases both CSR as well as financial performance. CSR strategies by private companies can be encouraged, supported or enforced through international business. Moreover, Dutch companies score well on the Dow Jones Sustainability Index and in international comparisons of transparency.

Moderator variables are important to indicate, because specific factors are often assumed to reduce or enhance the influence that specific independent variables have on the dependent variable (Dul et al., 2008). So therefore, I include Openness as a variable in my research as a moderator for International Business. Openness is calculated as the ratio of the volume of foreign sales divided by the total sales of the company (with a 5 year average).

3.4 Control Variable
Some variables can have an effect on the outcomes and therefore control variables are included in this research, see also section 2.10. With a view to measure only the impact of CSR on the financial performance of firms, I have chosen ‘Number of Employees’, ‘Total Assets’ and ‘Net Income’ as control variables. Furthermore, this makes the research results comparable to the majority of other studies (Lin et al., 2009; Wagner et al., 2002; Barnet et al., 2012).

3.4.1 Structure data set
Structured data has the advantage of being easily analyzed. Therefore I structured the companies in the data set based on the Orbis database. The Orbis databases combines information from over 120 sources and covers nearly 150 million companies (www.bvdinfo.com).

First I narrowed down the categories of sectors, scaled in:  
- Services;
- Manufacturing;
- Wholesale;
- Retail; or
- Other services.

Second, I included company Size with an index which is divided in four groups based on the following conditions:

Very large companies
• Operating Revenue >= 100 million EUR
• Total assets >= 200 million EUR
• Employees >= 1,000
• Listed

Large companies
• Operating Revenue >= 10 million EUR
• Total assets >= 20 million EUR
• Employees >= 150

Medium sized companies
• Operating Revenue >= 1 million EUR
• Total assets >= 2 million EUR
• Employees >= 15

Small companies
• Companies on Orbis are considered to be small when they are not included in another category.

3.5 Dummy
As from 2010 the Transparency Benchmark is based on fifty criteria. The criteria are divided into content-related criteria and quality-oriented criteria, which in turn are grouped around five themes or categories each. A total of 200 points can be achieved, 100 points for the substantive and 100 points for the quality-oriented criteria. In the year 2010, the way of judgment was changed and the criteria were extended in comparison with the criteria of 2009. In 2010 both the criteria and the method of the Transparency Benchmark and the ACC Award (best corporate responsibility report) have been combined. In 2009, the CSR themes were separated in 10 categories which were judged with equal importance. This means that in every category 10 points could be achieved, up to 100 points in total.

Therefore, the scores for the reporting on the years 2010-2013 are not one-to-one comparable with those for the years 2005-2009 as a result of the criteria adjustments. I use the dummy variable for value 0 = the period 2005-2009 and value 1 = the period 2010-2013.

3.6 Model
3.6.1 Hypothesis 1
Much research has been done trying to conclude whether companies that are committed to CSR practices achieve better financial results. This means that although investments in CSR incur increased costs for companies, they have a positive effect on the firm’s value. In the literature review I saw that overall the conclusion were positive. Another reason mentioned for the positive association of CSR and corporate performance is because of the improved stakeholders’ relationship. Therefore, I’ll expect a positive relation between CSR scores and financial performance (ROA).

Hypothesis 1: Firms with a high involvement in corporate social responsibility - compared to the sector average - have a higher financial performance.

The mathematical representation of hypothesis 1 for this study is as follows:

$$\text{ROA}(i) = \alpha 0 + \beta 1 \text{CSR}(i) + \beta 2 \text{Employee}(i) + \beta 3 \text{TotalAssets}(i) + \beta 4 \text{NetIncome}(i) + \beta 5 \text{Sector}(i) + \varepsilon(i)$$
where:

ROA = Return on Assets
α = the intercept
CSR = CSR calculated using Transparency Benchmark score
Sector = Manufacturing, Retail, Services, Wholesale and Other Services
i = year

It has been showed that there are clear differences on CSR performance among sectors (Waddock and Graves, 1997). ROA varies by sector and thus Waddock & Graves (1997) have used sector categories to control for these differences in ROA. With many different sectors in one study, the results may mask individual differences for measuring CSP and financial performance. Therefore, I’ll also test the sectors mentioned in section 3.4 in my empirical research.

3.6.2. Hypothesis 2
A lot of studies stress the many triggers of CSR behaviors (global and sectorial CSR initiatives, corporate performance, general business climate, leadership styles, risk management, expectations from stakeholders etc.) as well as the many influences on the impacts of CSR behavior, such as the environment, humans etc. This drives me to that international business and CSR could be interconnected, see also paragraph 2.9.

Hypothesis 2: Firms with a high openness and a high score on CSR have a higher financial performance.

To measure the extra variable of openness, I’ll use:

\[ ROA(i) = \alpha + \beta_1 CSR(i) + \beta_2 Openness(i) + \beta_3 Employee(i) + \beta_4 TotalAssets(i) + \beta_5 NetIncome(i) + \beta_6 Sector(i) + \epsilon(i) \]

where:

Openness = is the export sales percentage of the company.

3.7 Sample size
The sample size used in this research is based on the organizations with a presence on the Transparency Benchmark. The Transparency Benchmark aims to provide an opinion on the content and quality of external reporting on corporate responsibility issues but explicitly does not give an opinion on the actual performance of organizations. The Transparency Benchmark is primarily aimed at large companies in the Netherlands.

In the year 2013 there are 460 companies in total. In the list of 2013, which is based on the CSR reports and annual reports of the year 2012, 203 companies received no score. The remain sample size consist of 257 Dutch companies. For a total overview of the number of companies over the years 2009-2013 see Appendix I. The organizations with zero points did not achieve a score because:

- The report was not publicly available for free;
- The report was not published in time; and/or
- The organization did not refer to a report from the parent on group level.

Note, the data of the organizations with zero points awarded are not included in the analyses.
The Transparency Benchmark has sixteen different sectors. In addition, I’ve added the main section of the BvD major sector classification to compromise the data to five sectors: Manufacturing, Retail, Services, Wholesale and Other Services.

I extract the values for Openness (the percentage out of total sales generated by foreign operations) of an organization for a given year from DataStream. This database includes information on equities, indices, bonds, futures, options, commodities, interest rates, exchange rates and macro-economic data. The data is provided by stock markets worldwide, national statistical bureaus and international organizations like the IMF and OECD. Not all organizations report their foreign sales (n = 42).
4 Results and outcome

This chapter analyses the data obtained in this research. First, the models are assessed on validity and reliability. In the second part of this chapter, the different analyses are carried out in SPSS in order to test the hypotheses.

4.1 Validity and Reliability

To try to ensure that measurement error is kept to a minimum is to determine the research is valid and reliable. Validity refers to whether an instrument measures what it was designed to measure and reliability whether an instrument can be interpreted consistently across different situations.

Reliability and validity needs to be established in the pre-testing phase by assuring that all dimensions and indicators are captured (Dul et al., 2008). This research has done this by conducting an extensive literature review. Scales are used which have been validated in prior research.

4.2 Descriptive statistics

4.2.1 CSR Scores

The CSR scores assigned in the Transparency Benchmark program from the Ministry of Economic Affairs in the Netherlands allows to investigate variance in the quality of different CSR reports and has several advantages relative to datasets used in prior studies. The representation of CSR quality is less likely contaminated by subjective biases as in studies using self-constructed index since the former is based on a relatively objective framework regulated by the government. The reduced measurement error should help to measure the CSR performance. Moreover, the evaluation process involves validation of third parties such as the panel of experts and the external auditor, which should help improve the validity and credibility of CSR scores. Based on a sample of 460 firm-year observations between 2005 and 2013, I investigated the CSR scores. Displayed in figure 3 are the average scores of the Transparency Benchmark for the period 2005-2013.

![Figure 3: Average total scores CSR Transparency Benchmark 2005-2013](image)

As you can see there is quite a difference in the mean (table 5) and average scores (figure 3) in the period 2005-2009 compared with the period 2010-2013. Due to the changed measure technic, as I mentioned in paragraph 3.5, companies can gain a higher score in 2010 compared to the previous years.

Table 5 shows the number of companies with a CSR score in the Transparency Benchmark that is higher than 0. As for an example, in 2013 460 organizations were listed in the Transparency Benchmark from whom 260 ended with a score of more than zero points.
Table 5: Summarized descriptive statistics scores CSR Transparency Benchmark 2005-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>260</td>
<td>3</td>
<td>198</td>
<td>103.75</td>
<td>59.021</td>
</tr>
<tr>
<td>2012</td>
<td>209</td>
<td>5</td>
<td>199</td>
<td>107.89</td>
<td>56.576</td>
</tr>
<tr>
<td>2011</td>
<td>210</td>
<td>5</td>
<td>198</td>
<td>94.01</td>
<td>53.635</td>
</tr>
<tr>
<td>2010</td>
<td>200</td>
<td>5</td>
<td>197</td>
<td>70.50</td>
<td>47.688</td>
</tr>
<tr>
<td>2009</td>
<td>128</td>
<td>7</td>
<td>94</td>
<td>35.4609</td>
<td>19.98618</td>
</tr>
<tr>
<td>2008</td>
<td>111</td>
<td>7</td>
<td>96</td>
<td>36.9640</td>
<td>21.32345</td>
</tr>
<tr>
<td>2007</td>
<td>103</td>
<td>7</td>
<td>96</td>
<td>35.3883</td>
<td>21.09141</td>
</tr>
<tr>
<td>2006</td>
<td>104</td>
<td>8</td>
<td>80</td>
<td>30.7212</td>
<td>18.61905</td>
</tr>
<tr>
<td>2005</td>
<td>99</td>
<td>9</td>
<td>73</td>
<td>28.6263</td>
<td>16.54036</td>
</tr>
</tbody>
</table>

4.2.2 Financial scores

I’ll test for the effects on financial performance. As mentioned in chapter three, my dependent variable is the return on assets (ROA) for a given organization in a given year. ROA is defined as net income divided by total assets. Those figures are collected from the financial data in the annual reports (the balance sheet and income statement data) and is registered in the database of the Ministry of Finance. I also utilized the database of Orbis to supplement accounting information that was missing or not covered. For firms with missing identifier information, I manually matched those using firm names.

The AEX index, derived from Amsterdam Exchange index, is a stock market index composed of Dutch companies that trade on NYSE Euronext Amsterdam. Started in 1983, the index is composed of a maximum of 25 of the most actively traded securities on the exchange. The decade between 1998 and 2008 has been bad for the AEX index. In figure 4 as can be seen that the ROA in the database have quite a same movement (decline or increase) as from 2007 however less dynamic. Further in this research, section 4.3.3, I’ll include in the equation the AEX variable (rate of change for each year, p= 100 in 1980), in order to account for possible non-linearity in the relationship between CSR scores and ROA.

Figure 4: ROA and AEX
4.3 Empirical Results

After having validated the constructs used in this research, the structural model can be assessed by testing the hypotheses. This is done in this section. This paragraph mainly discusses the outcome of the model and briefly gives an explanation of what the findings mean. In the following chapter the results will be explained and compared to the literature mentioned in chapter 2.

4.3.1 First test

In this research, there are several independent variables. By means of the multiple linear regression is assessed how much the dependent variable is changing at the time when the independent variable is changed by one unit. This makes it possible to predict a degree of the change in the dependent variable. Before the multiple regression can be applied, a check on the boundary conditions must be performed. In general, there are four conditions:

1. Sufficient large n in the sample; partly from the study of Tabachnick and Fidell (2007) proposes to hold a minimum of 50 units plus another 8 units for each independent variable. With an n of 99 up to 260 for organizations with CSR score (see table 5) and two independent variables the data is compliance with this requirement. However, for Openness n is 42;

2. Test on multicollinearity; this can lower the reliability of the model independent variables that overlap with each other. No correlation of $p \geq 0.9$ between the variables. From the correlation matrix (Appendix I) it is visible that this is not true for the variables in this study;

3. No outliers in the variables. That is, the z-scores of the variables are not allowed to be outside the range of -3 and 3 (Tabachnick & Fidell, 2007). The Z-score of CSR shows that it meets the condition, see Appendix I;

4. Good distribution of residues; the residuals of the regression model should be reasonably distributed normal and linearly. In Appendix I, it is displayed that the residuals are reasonably normal and linearly distributed. The corresponding key on homoscedasticity is also represented by a scatter plot. This shows that the regression model has a good distribution of the residues.

Even when all the above assumptions are met according to Field (2013), which is the case in this research, the conclusion that the regression model is perfectly identical to the population cannot be drawn. An unbiased model does tell me that on average the regression model from the sample is the same as the population model. It is possible that the sample may not be the same as the population model, but the likelihood of them being the same is increased.

4.3.2 Various variables

To get an estimate of the degree to which the various variables are associated I’ve carried out a bivariate analysis. In this analysis, the Pearson correlation coefficient ($r$) is calculated for all possible combinations of the variables. The coefficient ranges from -1 to +1, wherein a score of -1 and +1 is considered to exactly perfect linear relationship between two variables. If $r$ is positive, it means that an increase of variable x will lead to an increase in variable y. A score of 0.05 to 0.25 indicates a weak cohesion; a score of 0.25 up to 0.60 indicates a moderate consistency and scores above 0.60 indicate a strong correlation again. For negative values the exact opposite (Field, 2013). Results from the bivariate analysis are displayed in table 6.
The above table shows that almost all relationships correlations are weak, except for employee and Openness. It should be noted that correlations cannot be used to infer a causal relation between two construct. This does not mean that correlations cannot indicate an existence of a causal relation; it means that the causes underlying the correlation may be indirect or unknown (Fried, 2013). The correlation between employee and Openness is not altogether surprising (Czinkota and Johnston 1983, O’Rourke 1985, Tookey 1964).

The values indicate a significant negative correlation (-0.173) of CSR disclosure with ROA suggesting a negative impact of CSR on the short-term profitability as measured by ROA. Table 6 makes clear that CSR and ROA are negatively and significantly correlated, but Openness is significantly positively correlated with ROA and CSR. This is represented in the conceptual model in figure 5. It isn’t striking that there is a moderate link between Openness and financial performance (OECD, 2014).
4.3.3 Linear Mixed Models

SPSS has a flexible and good procedure for fitting linear mixed models with continuous outcomes. This enables me to study individual changes to fit a variety of variables that correctly accommodate the unique statistical properties. In my dataset, there are dependencies in the observations introduced by the hierarchical study design and statistical models need to accommodate this dependency in the data. Moving forward in this thesis, these models will be referred to as LMMs (linear mixed models).

Advantages when using LMMs:
- allows to consider both time-invariant and time varying covariates as predictors of a continuous dependent variable;
- able to fully accommodate all of the data that are available for a given subject, without dropping any of the data collected for the subject; and
- data sets with different numbers of observations per subject can be easily analyzed using LMMs.

Multiple variables are available in the data set for each organization, and these variables tend to be correlated with each other (because they come from the same organization). LMMs allow to model various forms of this correlation. The fixed factors are categorical factors with levels that are not randomly sampled from some larger population of levels; rather, all levels are included in the study design. The levels of these variables will be the same in every theoretical replication of this study. The dependent variable is ROA. The CSR, Openness, AEX, Employees, Sector and Assets variables are time-invariant variables and therefore used as fixed factors.

In the table 7 ‘Type III Tests of Fixed Effects’ the F value (F) and the significance of the F (Sig.) are given for the within and the between groups. It gives a single overall test of the usefulness of a given explanatory variable, without focusing on individual levels. From Table 7, I notice that the estimate of the “sector” parameter is not significant, which means that a simple, scaled-identity structure may be used.
Moreover, he F-tests are especially useful to investigate when looking at significance for predictors in the model that involve several fixed effects, such as complex interactions between predictors (like the interaction between CSR and Openness). In table 8 I included the interaction for CSR activities and Openness on ROA. The F test for the interaction between CSR and Openness is not significant at the 5% level ($p = 0.653$). Looking at the effects individually of CSR and individually of Openness in table 8 tells us that CSR significantly predicted ROA [$F(1, 453) = 6.325, p = 0.012$] and also Openness significantly predicted ROA [$F(1, 453) = 5.976, p = 0.015$]. Though, CSR has a negative estimated fixed effect of -0.478. This suggests that an increase in CSR results in a decrease in mean ROA, and this fixed effect is significantly different from 0 based on the $t$ test. Thus hypothesis 1 and 2 are not supported.

<table>
<thead>
<tr>
<th>Source</th>
<th>Numerator df</th>
<th>Denominator df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1</td>
<td>453</td>
<td>17.143</td>
<td>.000</td>
</tr>
<tr>
<td>SectorMain</td>
<td>3</td>
<td>453</td>
<td>1.318</td>
<td>.268</td>
</tr>
<tr>
<td>DummyYear</td>
<td>1</td>
<td>453</td>
<td>.511</td>
<td>.475</td>
</tr>
<tr>
<td>Employee</td>
<td>1</td>
<td>453</td>
<td>.504</td>
<td>.478</td>
</tr>
<tr>
<td>NetIncMln</td>
<td>1</td>
<td>453</td>
<td>11.816</td>
<td>.001</td>
</tr>
<tr>
<td>AssetsMln</td>
<td>1</td>
<td>453</td>
<td>3.050</td>
<td>.081</td>
</tr>
<tr>
<td>CSR</td>
<td>1</td>
<td>453</td>
<td>6.325</td>
<td>.012</td>
</tr>
<tr>
<td>Openness</td>
<td>1</td>
<td>453</td>
<td>5.976</td>
<td>.015</td>
</tr>
<tr>
<td>CSR * Openness</td>
<td>1</td>
<td>453</td>
<td>.202</td>
<td>.653</td>
</tr>
<tr>
<td>SizeCompany</td>
<td>0</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>AEX</td>
<td>1</td>
<td>453</td>
<td>.668</td>
<td>.414</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA.

Table 7: Type III Tests of Fixed Effects

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Estimate</th>
<th>Std. Error</th>
<th>df</th>
<th>t</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>6.489263</td>
<td>2.816285</td>
<td>453</td>
<td>2.304</td>
<td>.022</td>
<td>0.954658 - 12.023868</td>
</tr>
<tr>
<td>Employee</td>
<td>.011526</td>
<td>.016232</td>
<td>453</td>
<td>.710</td>
<td>.478</td>
<td>-.020373 - .043426</td>
</tr>
<tr>
<td>NetIncMln</td>
<td>.006568</td>
<td>.001911</td>
<td>453</td>
<td>3.437</td>
<td>.001</td>
<td>.002813 - .010322</td>
</tr>
<tr>
<td>AssetsMln</td>
<td>-.000534</td>
<td>.000306</td>
<td>453</td>
<td>-1.746</td>
<td>.081</td>
<td>-.001135 - .689836E-5</td>
</tr>
<tr>
<td>CSR</td>
<td>-.047760</td>
<td>.018991</td>
<td>453</td>
<td>-2.515</td>
<td>.012</td>
<td>-.085080 - .010439</td>
</tr>
<tr>
<td>Openness</td>
<td>.053843</td>
<td>.022026</td>
<td>453</td>
<td>2.445</td>
<td>.015</td>
<td>.010558 - .097128</td>
</tr>
<tr>
<td>CSR * Openness</td>
<td>-.000128</td>
<td>.000285</td>
<td>453</td>
<td>-.449</td>
<td>.653</td>
<td>-.000689 - .000432</td>
</tr>
</tbody>
</table>
The negative correlation for CSR might bring the covariance structure into question, so I investigate of alternative covariance structures. Table 9 displays the results obtained after performing a linear regression on the whole sample data in different structures. The models changes from each other by including all variables in Model 1 and then removing variables in the following models. The outcomes are:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Var</td>
<td>Var</td>
<td>Var</td>
<td>Var</td>
<td>Var</td>
<td>Var</td>
</tr>
<tr>
<td>Employees</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>-0.011</td>
<td>0.016</td>
<td></td>
</tr>
<tr>
<td>NetIncome</td>
<td>0.010</td>
<td>0.010</td>
<td>*</td>
<td>0.010</td>
<td>*</td>
<td>0.009</td>
</tr>
<tr>
<td>Total Assets</td>
<td>-0.001</td>
<td>*</td>
<td>-0.001</td>
<td>*</td>
<td>-0.001</td>
<td>*</td>
</tr>
<tr>
<td>CSR</td>
<td>-0.048</td>
<td>**</td>
<td>-0.029</td>
<td>*</td>
<td>-0.029</td>
<td>*</td>
</tr>
<tr>
<td>AEX</td>
<td>-0.015</td>
<td></td>
<td>-0.007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Openness</td>
<td>0.054</td>
<td>**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interaction Variable
CSR x Openness 0.000

p < 0.01 *
p < 0.05 **

Table 9: Results tested Covariance structures in different models

The above table shows that adapting the structure gives that the estimated variance in other structures will change but the CSR covariate is still negative. This suggesting that the linear relationship between CSR score and ROA of an organization probably (p < 0.05) has a negative direction (-0.048; -0.029; -0.029; -0.031; -0.031; -0.028).

Consider that correlations cannot be used to infer a causal relation between two construct. This does not mean that correlations cannot indicate an existence of a causal relation; it means that the causes underlying the correlation may be indirect or unknown (Fried, 2013). Whether the negative correlation for SCR scores and ROA makes sense will be further discussed in section 5.1. Additionally, underlying causes will be discussed.

It should be noted that the sample size of Openness for the total period 2005-2013 was only available for 42 organizations. This sample size is too small to draw accurate conclusions from (Field, 2013). However, the result is an interesting effect. This will not deeper investigated, because it is not the focus of this study. It is offered as a suggestion for further research, as will be explain in section 5.3.
4.4 Analysis of the hypotheses

The hypotheses tested are: (i) firms with a high involvement in corporate social responsibility - compared to the sector average - have a higher financial performance, and (ii) firms with a high openness and a high score on CSR have a higher financial performance. Hypotheses 1 was tested significant (.012) but the coefficients in the different models were showing a negative impact of CSR on profitability. Indicating that hypothesis 1 should be rejected. The results of the test for hypothesis 2 didn’t show any significant results (0.653). However, the results gave some weak indication of lower profitability for firms scoring high on the openness indicator. i.e., international competition reduces CSR potential. However given the low significance, the overall conclusion is that the research did not support hypothesis 2.

Furthermore, the results showed that there is no significant relation of the variable sector (table 7, p = 0.268). This is in line with the ‘theory of the firm’ perspective on corporate social responsibility of Mc Williams et all. (2001). They suggest that the CSR and financial performance relationship is neutral because profit maximizing firms will supply social responsibility at a level that meets demand. Some firms are more socially responsible than others because they face market conditions that demand more social responsibility. But all firms exhaust all profitable social investment opportunities by producing social responsibility at a level that equates to their marginal costs, with the result being an overall neutral relationship.
5 Discussion
In this chapter the main question of this study will be answered. By answering these key question I will be given at the same time the main conclusions of this study. Then I look at the limitations of the study and will give recommendations for future studies.

5.1 Introduction
The on-going debate whether CSR lead to enhanced performance has been going on since Friedman (1970). He claimed that organizations don’t have any sustainability obligations to anyone else then their stakeholders. However, the (business) world has changed since 1970. In the past decade, the term triple P – or People, Planet, Profit – has been pointed as the need for managers to focus on the social, environmental and economic dimensions of businesses activities, in order to help shape the (sustainable) future of the organization. Moreover, customers and governments are increasingly expecting and demanding organizations to take responsibly for their actions.

CSR is defined by Porter and Kramer (2006) as the idea of integrating economic, environmental and social criteria into strategy and management to create long-term shareholder value. Though, management can also gain short-term profits. An example of a short-term result can be found at Unilever. Unilever reduced their energy consumption considerably. This not only cut their greenhouse gas emissions for a better environment but also cut costs (see chapter 2).

Dutch companies score well on the Dow Jones Sustainability Index and in international comparisons of CSR activities (chapter 2.8). Notwithstanding, in existing studies of the relationship between CSR and financial performance the results have been mixed. This can leaves organizations without a clear direction regarding the desirability of investment in CSR. To get more insight in CSR activities and financial performances I’ve set the following main question: What is the influence of Corporate Social Responsibility activities of firms based in the Netherlands on their financial performance?

5.2 Findings
CSR and sustainable development provide fertile areas in which business theories can be tested, and from which new insights into the dynamics can be induced (Tilburg et al. 2012). The literature review in this thesis showed that there is evidence that CSR activities have a positive influence on the financial performance of organizations. As explained in chapter 4 I my research I could not match the expected outcome. The hypotheses tested are: (i) firms with a high involvement in corporate social responsibility - compared to the sector average - have a higher financial performance, and (ii) firms with a high openness and a high score on CSR have a higher financial performance. Hypotheses i was tested significant (.012) but the correlation negative. Looking to the hypothesis ii there was no significance (.653). This could be due a limited number in the data for Openness (n = 42). According to Fied (2013) this number of units is too small.

Epstein and Roy (2001) conclude that achieving a successful corporate strategy for social responsibility must be viewed over a long time horizon so that both the leading and lagging indicators of performance can be examined. They indicate that increased purchases lead to long-term profitability. Also Porter and Kramer (2006) framed financial performance in terms of value creation instead of short-term profits. Corporate annual reports are more and more replete with references to shareholder wealth creation and shareholder value measures such as economic value added instead of one financial year performances. Elinkton (1997) suggest that initially, adoption of CSR burdens a company financially. But, investing resources in charity, environmental protection, and education pays dividends in corporate reputation. In other words, distribution of short-term
gains increases the reliability of long-term returns through CSR. This because a relationship with employees, competitors, consumers, and suppliers is invaluable. Increasingly, investors seek socially responsible firms and not just the highest current financial returns. Sustainability is important to investors, shown through portfolio screens for and mutual funds of CSR adopting companies. The prolonged advantage of CSR ensures sustainable economic advantage and should be a long-term objective of any organization.

Moreover, based on that my hypotheses were not supported, I also became more integrated at the paper of Barnett et al. (2012). Their study provides insight into the contingent relationship between CSR and financial performance. It extends the growing theoretical and empirical literature to demonstrate a U-shaped relationship between organizations CSR and financial performance. An organization with weak CSR does not suffer the financial outlays of a firm that invests in forms of social responsibility. If managers are aware that their organization has less ability to influence its stakeholders through CSR than does its competitors, then they may make a rational strategic decision to be less socially responsible. This because otherwise the CSR activities are not sufficient to gain recognition from stakeholders and investors. The downward slope of the U, is explained by the essential costs of CSR. Think of investments in additional employee benefits, charity, community involvement, and other forms of social responsibility. As a result, if all else is held equal, the higher an organizations CSR activities, the higher its costs, and thus, the lower its financial performance. However, the downward sloping line eventually switches direction. Despite the fact that spending on social performance is costly, the additional social investments earn positive returns that more than offset the increased costs. If adequate CSR is made above a given threshold and meet the expectations of the stakeholders, organizations can obtain many benefits from those stakeholders and investors as well as society, such as tangible resources (money and resources invested by stakeholders and investors) and intangible resources (public images, trust, legitimacy, human resource capital, etc.). As a result, the benefits generated will surpass costs, leading to a positive effect of CSR on the financial performance.

In sum, organizations should not be reluctant to engage in CSR activities. They should know that CSR is not only ‘the right thing to do’. Instead, based on literature review of this research, organizations should understand that implementing CSR activities can positive impact financial performance. It is important that organizations are internally motivated and the activities are implemented in their business model. It is possible, based on my empirical findings, that there are no short-term increased revenues. Nevertheless, organizations should understand that CSR activities can lead to long-term benefits. The sustained advantage of CSR ensures sustainable economic advantage and should be a long-term objective of any organization.

5.3 Limitations and recommendations for further research

As with all research, the results presented in the previous chapter are subject to a number of limitations. In this paragraph I’ll discuss these limitations and provide recommendations for further research.

Griffin and Mahon (1997) have suggested that the samples used and the measures of sustainability and financial performance might be the cause of ambiguous results in researches. Barnet et al. (2012) suggests that in order for organizations to increase their capacity to benefit from investments in CSR, they first might have to endure a period of decreased financial performance. Therefore, I suggest that future research should attempt to sort out the degree to which financial benefits from CSR come through decreased costs, perhaps from improved efficiency at providing social programs, rather than the ability to increase revenues.
Another point found in literature, is that improving social performance is an element to a learning process. In order for organizations to increase their capacity to benefit from investments in social responsibility, they might have to endure a period of decreased financial performance (Porter et al., 2006; Epstein et al, 2008; Barnett et al., 2012). This could suggest that measures of near-term financial returns are not a qualified measure-variable to indicate the financial performance of CSR activities. To measure financial performance I have used the ROA. As described in chapter 3 ‘Methodology and Data’, I expected to find a positive correlation between the CSR scores and the ROA. Results of the research (chapter 4) suggested that such a positive correlation isn’t applicable. Therefore I recommend in further or replication research a different type of measurement (David Hillier et al, 2013) should be chosen in order to assess a positive correlation.

Furthermore, the stakeholder theory is also more comprehensive (chapter 2.2) than my empirical model. This may tell that the empirical model was too small to filter out other variables that influence the financial performance of an organization.

At last, the above suggestions already shows that the method of measurement is subject to several methodological challenges. Similarly, Porter and Kramer (2006) have pointed to the shortfalls of past measures of CSR. There are many factors as to why one solution addressing the issue of financial performance relating to CSR, particularly with regard to international business, may not be feasible, such as (i) the sovereignty of the many nations that make up the global community, (ii) diversity of legislation, regulation, culture and business practices of the various jurisdictions in which organizations operate and (iii) the significant uncertainty as to how to regulate the conduct of organizations in foreign jurisdictions. There is no easy solution to filter out this variables in an empirical research. Dul et al. (2008) give examples of advantages of obtained qualitatively data instead of quantitatively. However, this is such a comprehensive approach that is it almost impossible to measure all the relevant variables accurately. Furthermore, because a qualitative research is very comprehensive, the method will not be very transparent for most people. In order to counter the problem of indexing CSR activities as good as possible, I would welcome additional research into the contingent nature of scores on CSR activities and, more specifically, the influence of international business.
6 Literature


CSR Netherlands, IMVO thermometer [ICSR thermometer], June 2013


European Commission (2011) Communication from the commission to the European parliament, the council, the European economic and social committee and the committee of the regions: A renewed EU strategy 2011-14 for Corporate Social Responsibility.


International Organization for Standardization strategic advisory group on corporate social responsibility, preliminary working definition of organizational social responsibility, ISO/TMB AGCSR N4, 2002


NIKE, INC. FY12/13 Sustainable Business Performance Summary


Transparency International: Bribe Payers Index Report 2011


Appendix I

The CSR scores are based upon publicly available reports through which organizations report on the previous year. Several types of reports are qualified for the Transparency Benchmark, including annual reports, financial reports, sustainability reports and social reports. It is a condition that the reporting is publicly available. This implies that either the report is available at the counter free of charge, or can be downloaded from the organizations’ website. In table 4 a the mean CSR scores for each year are set out.

<table>
<thead>
<tr>
<th>Year</th>
<th>CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>98</td>
</tr>
<tr>
<td>2006</td>
<td>103</td>
</tr>
<tr>
<td>2007</td>
<td>102</td>
</tr>
<tr>
<td>2008</td>
<td>110</td>
</tr>
<tr>
<td>2009</td>
<td>127</td>
</tr>
<tr>
<td>2010</td>
<td>198</td>
</tr>
<tr>
<td>2011</td>
<td>208</td>
</tr>
<tr>
<td>2012</td>
<td>207</td>
</tr>
<tr>
<td>2013</td>
<td>257</td>
</tr>
<tr>
<td>Total</td>
<td>1410</td>
</tr>
</tbody>
</table>

*Table 4 a: Case Summaries, organizations received a CSR score based on their public statements*

I structured the companies in the data set based on the Orbis database to five main sectors to do some analyzes. In table 4 b is seen that the organizations within the sectors of services (857 points) have on average scored the best. Originally, the Transparency Benchmark has sixteen different sectors.

<table>
<thead>
<tr>
<th>MainSector</th>
<th>Year</th>
<th>CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>2005</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>43</td>
</tr>
<tr>
<td>other services</td>
<td>Total</td>
<td>277</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>7</td>
</tr>
<tr>
<td>Year</td>
<td>Retail</td>
<td>Services</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>----------</td>
</tr>
<tr>
<td>2005</td>
<td>5</td>
<td>57</td>
</tr>
<tr>
<td>2006</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>2007</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>2008</td>
<td>6</td>
<td>63</td>
</tr>
<tr>
<td>2009</td>
<td>8</td>
<td>71</td>
</tr>
<tr>
<td>2010</td>
<td>8</td>
<td>119</td>
</tr>
<tr>
<td>2011</td>
<td>8</td>
<td>129</td>
</tr>
<tr>
<td>2012</td>
<td>8</td>
<td>135</td>
</tr>
<tr>
<td>2013</td>
<td>8</td>
<td>163</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>857</td>
</tr>
</tbody>
</table>

Table 4 b: Case Summaries organizations received a CSR score based on their public statements separated to sectors

In figure 6 the mean CSR scores devised in separate years and sectors is visualized.
Table 6 a is the result after the test on multicollinearity; this can lower the reliability of the model variables that overlap with each other. No correlation of \( p \geq 0.9 \) between the variables so no action needed to resolve multicollinearity in the data set.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>ROA</th>
<th>CSR</th>
<th>Employee</th>
<th>Openness</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-1.173**</td>
<td>.002</td>
<td>.102*</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.933</td>
<td>.011</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>2728</td>
<td>1016</td>
<td>2430</td>
<td>625</td>
</tr>
<tr>
<td>CSR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-.173**</td>
<td>1</td>
<td>.216**</td>
<td>.125**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.005</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>1016</td>
<td>1410</td>
<td>1003</td>
<td>496</td>
</tr>
<tr>
<td>Employee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-.002</td>
<td>.216**</td>
<td>1</td>
<td>.273**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.933</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>2430</td>
<td>1003</td>
<td>2610</td>
<td>605</td>
</tr>
<tr>
<td>Openness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.102*</td>
<td>.125**</td>
<td>.273**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.011</td>
<td>.005</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>625</td>
<td>496</td>
<td>605</td>
<td>693</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 6 a: Correlations

Z-Score is a statistical measurement of a score's relationship to the mean in a group of scores. A Z-score of 0 means the score is the same as the mean. Table 6 b are the results after the test whether there are outliers in the CSR scores and Openness number. That is, the z-scores of the variables are not allowed to be outside the range of -3 and 3 (Tabachnick & Fidell, 2007). Both Z-scores shows that it meets the condition.

<table>
<thead>
<tr>
<th>Zscore(CSR)</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1410</td>
<td>-1.24942</td>
<td>2.32291</td>
<td>.0000000</td>
<td>1.0000000</td>
</tr>
</tbody>
</table>
A P–P plot can be used as a graphical adjunct to a test of the fit of probability distributions. In figures 7 it’s made for CSR Score and in figure 8 for Openness. In both graphs the little circles follow the line pretty well, with some random scatter about the line. Therefore, the data is close enough to being Normal for the research.

In figure 9, 10 and 11 histograms are displayed. Included is a normal (bell shaped/Gaussian) curve on the graph. Figure 9 is with the CSR scores in the period 2005-2009, figure 10 the CSR scores in the period 2010-2013 and figure 11 on the Openness scores. Note that the plots no longer has the “outlier”, which implies acceptance of the hypothesis of normality.

<table>
<thead>
<tr>
<th>Zscore(Openness)</th>
<th>693</th>
<th>-1.28422</th>
<th>1.76893</th>
<th>.00000000</th>
<th>1.00000000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid N (listwise)</td>
<td>496</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6b: Z-scores
Figure 9: Histogram CSR 2005-2009

Figure 10: Histogram CSR 2010-2013

Figure 11: Histogram Openness