



Linnæus University

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Bachelor Thesis

The impact of social incidents on CSR transparency and performance

*A quantitative study examining companies listed
in the European Union*



Author: Janna Akkermann
Supervisor: Natalia Semenova
Examiner: Natalia Semenova
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Abstract

In the last decades there was an evolving theoretical and practical discussion about the implementation of corporate social responsibility (CSR), partially provoked due to the occurrence of incidents which were caused by negligently companies. Furthermore, there is a disagreement of financial outcomes of the implementation of CSR strategies in prior research. The thesis contributes to the limited established empirical research on the impact of social incidents on company's CSR transparency and social performance of companies listed in European Union Member States. Furthermore, the thesis examines the impact of social performance on financial performance based on 308 observations in a time range of 2012 to 2014. The author finds no significant relationship between incidents and an improved CSR transparency or social performance for the overall sample at any conventional level. However, the author finds a positive significant relationship between social performance and financial performance, measured by the logarithm of Tobin's q , which indicates that social performance has a positive impact on financial performance.

Keywords: Corporate Social Responsibility, CSR transparency, Social Performance, Financial Performance, Social Incidents



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Abbreviations

- CSR – Corporate Social Responsibility
- ESG – Environmental Social and Governance
- KLD – Kinder Lydenberg and Domini
- NGO – Non-Governmental Organization
- SRI – Social Responsible Investment
- VIS – Variance Inflation Factor



1 Introduction

In this chapter, the author presents the background as well as a problem discussion of the research topic. This is followed by the purpose of the thesis and the research questions.

1.1 Background

Companies responsibility towards various stakeholders (e.g. consumers, employees and community) has long been in the scope of academic researchers and is defined in the concept of Corporate Social Responsibility (CSR). The doctrine of Milton Friedman that “The Social Responsibility of Business is to Increase its Profits” (Friedman, 1970) is long outdated. The concept of CSR and the obligation to include CSR strategies in the management of companies have been well discussed (Lyon and Maxwell, 2008; Grewatsch and Kleindienst, 2015) and has been pushed forward by governments, consumers and investors (Portney, 2008; Arya and Zhang, 2009).

Therefore, it is questionable why corporate incidents in connection with social background still occur on a regular basis. The *Rana Plaza collapse* for example, caused 1,134 deaths and around 2,500 injured people in 2013. The factory housed a variety of garment-factories, which manufactured products for companies such as the British-based¹ company Matalan and the French-based company Carrefour (stern.nyu.edu., 2014; forbes.com, 2014). In the aftermath, the companies hit by this social incident were criticized by politicians, consumers and NGO’s and an aggravated discussion about companies’ role and responsibility in all stages of their supply chain intensified (smcr.com, 2013). The Rana Plaza collapse is just one of many social incidents, which hit different industries contemporary and in the past. Therefore, the question arises, whether strategies which address social issues are implemented in corporate structures or whether the term CSR is an idea which is

¹ United Kingdom will be included in the following retrospective analysis, based on the fact that the withdrawal will prospective occur in 2019 and do not affect companies’ past performances.



accepted by companies, but that there are reasons, which inhibit the process of diffusion of implementation of CSR in corporate structures. Hence, the question arises why there is a lack of implementation, because regarding to reactions on the part of the society and other stakeholders and to the forward trend of Social Responsible Investment (SRI) (Sparkes and Cowton, 2004) it is demanded. To answer this question, the author will outline two possible reasons, which helps to understand the multifaceted influences of this research topic.

1.1.1 Complexity through globalization

A reason why incidents in the social context occur could be explained by an increase of complexity of global supply chains and a plethora of subcontractors (Stanczyk et al., 2017). The global market size of outsourced services for example, doubled over the last 17 years, from approx. 45 billion dollars in 2000 to approx. 90 billion dollars in 2017 (statista, 2018). The globalization of markets and a more and more connected world has led to a situation where every company can manufacture its products all around the world. Nevertheless, the routine of global sourcing goes along with an increase of the level of complexity and certain CSR related downsides (Stanczyk et al., 2017). The control of such global supply- chains can be a difficult task for the company even if the goal is to implement CSR standards (smcr.com, 2013).

In addition to that, global sourcing also leads to a situation where different companies, with different legitimacy contexts of CSR work together. The understanding of what justifies legitimate actions varies substantially between different institutions connected with global supply chains. Busse et al. (2016) showed that there are indeed paradox situations in which both buyer and supplier act according to the expectations of the stakeholders within their own legitimate context. Nevertheless, because of the differences between the legitimate contexts, buyer's stakeholders retracted legitimacy and therefore impaired the buyer. Working conditions in Asia and Europe might be an example where legitimacy differs. While certain conditions like working hours might be accepted by stakeholders in Asia, these would be heavily deprecated in the European context.



Consequently, the increase of institutional distances in global sourcing contexts increases risks regarding CSR related incidents.

1.1.2 The impact of social performance on financial performance

A further, more accountable reason why companies do not improve their CSR strategies could be found in the potential outcome of CSR strategies. If the cost of implementing CSR (e.g. more expensive labor or higher investments in the work-safety) in a company exceed the accountable economic benefits (e.g. increase of company image and financial performance) there would not be an incentive for companies to act according to CSR standards. However, there is a disagreement in prior studies about the relationship between CSR and financial performance (e.g. Grewatsch and Kleindienst, 2015). Some researchers do not see a relationship at all (Ullmann, 1985; McWilliams and Siegel, 2001), other researchers determine a positive relationship (Waddock and Graves, 1997; Orlitzky et. al, 2003) and other researchers determine a negative relationship (Brammer et. al, 2006; Becchetti and Ciciretti, 2006; Surroca and Tribó, 2008). CSR addresses issues which are involved in ecology, economic and society systems, which can be characterized as highly complex and dynamic due to their multifaced natures and the number of involved actors and locations (Sheehy, 2015). Moreover, prior researchers used different measurement methods to determine company's social performance, such as quantitative or qualitative methods. Even when some researchers relied on the same rating agency (such as KLD), partly they considered the weights of indicators provided by the certain database differently (Grewatsch and Kleindienst, 2015), which also can lead to inconsistencies in research results. Moreover, there are also different methods to determine the financial performance. Some researchers focused on the application of accounting-based measurements, while other centered on market-based measurement (Grewatsch and Kleindienst, 2015). Hence, this application of different measurement methods of financial performance is a further supportive factor for inconsistencies about the relationship between social and financial performance in prior research.



1.1.3 Research gap

Based on the shortcomings regarding the existing inconsistencies in the academic literature, the author will focus next to drivers on the financial reason, why firms would implement CSR strategies. Prior researchers (e.g. Deegan et al., 2000; Orlitzky et al., 2003) mostly considered all CSR dimensions (social, environmental, and economic) in their examinations of CSR. The author argues that a focus on the social dimension could be relevant. The social dimension describes the relationship between companies and the society. This implies, that business actions of companies highly affect customers (e.g. data privacy, product responsibility), employees (e.g. working conditions, learning opportunities) and community (e.g. endeavors which benefits the community, such as charitable organizations). These close relationships demonstrate the influence, companies can exert on the society via responsible business strategies.

Consequently, the thesis aims to focus solely on factors which are traceable to the concept of social performance, because of the aforementioned importance as well as regarding the fact that up to now scarce attention has been directed toward a single dimension of CSR. By connecting the impact of social incidents on CSR transparency and social performance and afterwards, the impact of social performance on financial performance, the thesis covers the drivers as well as outcomes of companies' social performance.

1.1.4 Perspective on companies which are listed in European Union Member States

A survey which examined CSR in Europe, North America and Asia presents that there are country-specific differences in the level of CSR implementation (Welford, 2004). By comparison, Europe shows a higher level of CSR than Asia. For example, companies listed Europe provided a significant higher level of human right policies, vocational education and fair wages than Asian companies. These findings are supported by prior research (Katz et al., 1999; or Kolk 2005), which states that there is country-specific difference in the implementation of the CSR term. Prior research argues, that the country-specific environment in which the company operates or where it was founded, influence the level and content of CSR. Thus, it could be



assumed that companies operating in European Union Member States provide a high level of CSR and hence, a low level of social incidents occurs per year.

However, a statistic of Eurostat (2014) reported, that more than 3 million work-related accidents² occurred in European Member States in 2014, including about 3,700 fatal-accidents. This indicates that there is still a noticeable number of work accidents caused by improvable working or health conditions in Europe. Furthermore, due to the progressing globalization, there is also the possibility that European-listed companies are involved in serious incidents abroad due to global supply chains (e.g. in the past, the Dutch company royal Dutch Shell triggered several controversies) (Mirivs, 2000). Thus, social incidents in Europe are still a present issue, even due to relative high working condition standards in comparison to working condition standards (e.g.) in Asia (Robertson, 2016).

Based on the fact, that European Union Member States advocates a comparable policy and contains similar economic conditions, the focus of the thesis is the examination of companies who are listed at European Union Member States. There are several recent transnational, national and “private” initiatives, which give further substance and direction to the CSR debate on a European scale. For example, the European Research Program “KP6” on a transnational level, and initiatives such as the Center of Corporate Citizenship (GER), the Copenhagen Centre (DK) or the Dutch National Research Program (NL) on a national level (Habisch et al.,2005). The present issue of social incidents and the several initiatives within the European Union highlight the presence and interest in the CSR debate. Thus, a focus on sample with companies listed in the European Union seems interesting and relevant.

²An accident at work in this framework is defined as a discrete occurrence during the course of work which leads to physical or mental harm (Eurostat, 2014).



1.2 Purpose

The main purpose of the thesis is to provide empirical evidence in two areas:

Firstly, the author analyzes the impact of social incidents on both CSR transparency and social performance. Secondly, the author investigates the impact of social performance on financial performance.

The significant attention about social responsibility of companies, in both, academic (Habisch et al., 2005; Grewatsch and Kleindienst, 2015) and practical dimensions (in form of the occurrence of incidents and the establishment of several initiatives in the European Union) as well as the highly important issues which are addressed by CSR (e.g. human rights and working conditions), highlight the relevance of the examined topic.

The implication of the study is that the results will contribute to more conscientious actions of companies regarding their social performance. Moreover, the author would like to extend evidence that social responsibility could be beneficial for companies also from an economic perspective besides just being philanthropic.

1.3 Research questions

Three research questions can be formulated:

Firstly, the author will examine the impact of social incidents on companies who are listed in European Union Member States on company's level of CSR transparency.

RQ₁: Do social incidents have an impact on the CSR transparency of involved companies?

Afterwards, the author will examine the impact of social incidents on companies' social performance.

RQ₂: Do social incidents have an impact on the social performance of involved companies?



In the end, the author will examine the finalized question if social performance has an impact on financial performance.

RQ3: *Does social performance have an impact on financial performance?*

For a visualization of the connection of the research questions see figure 1.

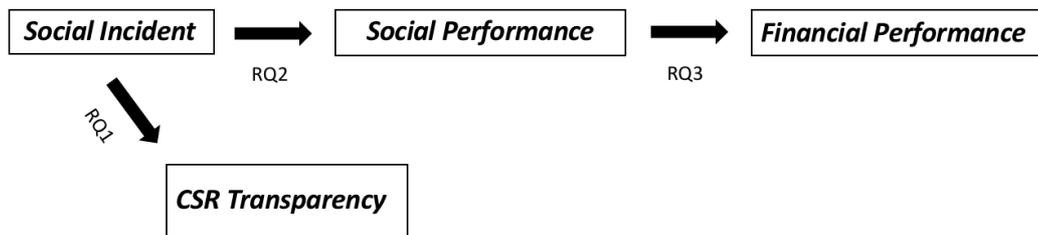


Figure 1: Visualization of connections of research questions

1.4 Disposition

The first chapter, the *Introduction Chapter*, gives an overview about the importance of the examined topic, by presenting the background, problem discussion, research gap and purpose of the thesis. In the end, the author formulates the research questions. The second chapter is the *Methodology Chapter* and presents the research approaches, philosophical views and the research strategy. The third chapter is the *Theoretical Framework*, where the author describes relevant theories and prior studies as well as important terms such as CSR and financial performance. In the fourth chapter, the *Empirical Methods*, the author explains empirical models and presents the data. The author will also focus on important assumptions and interpretations for regression models. The next following chapters are *Results* and *Analysis*, where the descriptive statistics and regression results are presented and analyzed. Based on them, the author answers the research questions and connect the results to prior theories. Finally, in the *Conclusion*, the author summarizes the findings and refers to limitations of the study and gives suggestions for future research.



2. Research methodology

The purpose of this chapter is to give the reader a transparent understanding of the author's choice of research methodology. It considers the authors prerequisites, the research approach and philosophy and therefore, leads to the presentation of the author's chosen research strategy.

2.1 Author prerequisites

The author has conducted two years of studies on the degree of Bachelor of Arts in Business Administration at Carl-von-Ossietszky University in Oldenburg, Germany. The third year of the three years program the author decided to complete a one-year Degree program at Linneaus University in Växjö, Sweden. During this time, the author has focused on courses in Accounting, Finance and Statistics to prepare for the thesis.

The author is inspired by social and environmental impacts on companies' business performance and how managers consider and implement these in their business decisions. Hence, the author set the task to investigate the effects of social incidents on CSR transparency and social performance and afterwards, the impact of social performance on financial performance. The genuine interest in this topic will appear on the commitment and efforts the author has spent on the bachelor thesis.

2.2 Research approach

In general, there are two main different ways for approaching a research question, the deductive or inductive approach. These two approaches differ in the perspective of the relationship between theory and research (Byrman and Bell, 2015, p. 23).

When deciding for the use of a deductive approach, the researcher firstly develops a theory and hypothesis and afterwards designs a research strategy to test the hypothesis. On the contrary, when the researcher chose an inductive approach, the researcher collects data and develops a theory as a result of the collected data analysis (Saunders et al., 2009, p.124).



Deduction involves a high amount of scientific research, where a theory is developed that is subjected to an accurate empirical test. Hence, the process of a deductive approach is the moving from theory to data. Aim of the approach is to explain relationships between variables by mostly using quantitative data (Saunders et al., 2009, p.125). A further approach for describing the relationship between theory and research is the application of an inductive strategy. Within the inductive approach, the researcher gathers generalizable inferences out of observations to build afterwards a theory. An inductive strategy is often associated with qualitative research (Byrman and Bell, 2015, p. 25).

The author decided to implement the deductive approach to formulate the relationship between social incidents and CSR transparency as well as between social incidents and social performance and social performance and financial performance. This decision was driven by the fact, that the research question was based on prior researches and theories. For example, Deegan et al. (2002) have investigated the relationship between environmental and social incidents and companies' CSR transparency by choosing a deductive approach. First, they formulated a hypothesis derived from several institutional theories (such as Legitimacy Theory and Media Agenda Setting Theory) and afterwards, they designed a research strategy to test the hypothesis. Moreover, researchers (McWilliams and Siegel, 2000; Hull and Rothenberg, 2008; Padgett and Galan, 2010; Clarkson et al., 2013) who examined the relationship between social performance and financial performance also formulated a hypothesis based on relevant theories first (e.g. Stakeholder Theory) and afterwards formulated a research strategy to test the hypothesis. Hence, they also conducted a deductive approach.

Furthermore, the aim of this thesis is to support and apply already existing theories such as the Legitimacy Theory, Media Agenda Setting Theory and Stakeholder Theory and extent prior researches by focusing on social-related aspects. Even when there is certain range of the application of the adopted variables used in the research (as explained in chapter 4), financial performance variables and social performance are both well researched. Therefore, one can conclude that there is no



need to apply an inductive approach, because there already exist theoretical concepts, which can be applied for the examination of the research question. Hence, creating comprehensible reasons for an application of the inductive approach could be challenging.

2.3 Research philosophy

An important part of research methodology is the philosophical view of the author towards research. Research philosophy describes the assumptions and beliefs about the development of knowledge, which has a significant impact on the research process of the author and how he will interpret the findings. The term is classified in two major approaches, the epistemological considerations and ontological considerations (Saunders et. al, 2009, p.107).

2.3.1 Epistemological considerations

Epistemological considerations make assumptions about sources of knowledge and what counts as acceptable knowledge. The central focus is hereby on the considerations about sources, possibilities and limitations of knowledge in the field of study (Byrman and Bell, 2015, p.26). Epistemological considerations are classified in three main positions: positivism, interpretivism and realism.

Positivism is an epistemological position that supports the application of natural science to the study of social reality. Generally, it relies on the principle of objectivity, which states that solely phenomena and knowledge confirmed by facts can be allowed to be seen as knowledge and that science needs to be handled objective. Hence, only knowledge which is gained through observations is reliable. (Byrman and Bell, 2015, p. 28). Moreover, positivist studies generally conduct a deductive approach (Crowther and Lancaster, 2008).

Realism is similar to positivism in regard to the view that natural and social sciences can and should apply the same approaches in their research process. Moreover, realism states that there is a reality which is separate from researcher's descriptions. Realism can be classified in two major forms; the empirical realism and the critical



realism. Empirical realism mirrors the world through personal human senses and states that reality can be understood due to the application of appropriate methods (Byrman and Bell, 2015, p. 28). Alternatively, critical realism considers the reality of the natural order and events and discussions of the social world (Byrman and Bell, 2015, p. 28). Hence, it states that these images or perceptions of the real world can be deceptive, and they usually do not mirror the real world (Novikov and Novikov, 2013). Concluding, empirical realism concentrates on a single level, while critical realism focuses on a multi-level and considers the influences on the specific research group.

Contrary to positivism, *interpretivism* argues that the subject of social sciences is different from that of natural sciences and a researcher should grasp that difference. It states that human action is meaningful because individuals are acting on the basis specific senses. Therefore, researchers should understand the subjective meaning of the social action and interpret human's action from its' point of view. Hence, *interpretivism* considers perceptions and formulate conclusions which are derived from interpretation of participants instead of theories (Byrman and Bell, 2015, p. 28).

The main principles of positivism state, that science should be handled objective. The result of the thesis is based on objective data to either confirm or reject the research hypothesis. The author will not include subjective opinions or speculations in the thesis, rather the author tries to maintain a scientific perspective within the research process (Bryman, 2015, p. 27-30.). Therefore, the author selects positivism as the epistemology. Due to the fact that the author chooses a deductive approach which states that first the hypothesis derived from theories will be formulated and afterwards a research approach will be designed, an application of interpretivism seems not applicable. The focus of this research is to formulate hypothesis and research strategies based on theories or prior studies and not developing ideas through induction from data. Moreover, realism is not suitable in light of the fact that it states that there is a difference between the reality and the author's description of it (Byrman and Bell, 2015, p. 28-30.).



2.3.2 Ontological considerations

Ontology is the second view of research philosophy and deals with the researcher's view of the nature of reality or being (Blaikie, 2010). It considers the nature of social entities and questions whether social entities should be recognized as objective or subjective. These views can be distinguished between objectivism and constructivism:

Objectivism sees entities as objective entities that have a reality external to social actors. Hence, they have an existence independent from social actors. It considers entities as tangible objects with hierarchies which have rules, regulations and standardized processes. It advocates, that entities are constraining forces that act on its members (Byrman and Bell, 2015, p.32)

Contrary, *constructivism* asserts that social entities are produced and changed through a process of change and revisioning. Hence, it challenges the view that organizations are pre-given and rather states, that the social order is in a constant change. Thus, social entities can be seen as social constructions which are developed by social actors' perceptions and actions (Byrman and Bell, 2015, p.32-33).

The author assumes that an objective reality exists, independent of human perceptions. The nature of human being is sharpened by external factors and that under certain conditions humans will engage in a specified behavior. Hence, the thesis adopts an objective ontological view when measuring the impact of social incidents on CSR transparency and social performance as well as the impact of social performance on financial performance. Using the objective ontological view helps the author to focus just on objective, quantifiable numbers.



2.4 Research strategy

The choice of an appropriate research strategy is necessary for answering a research question. There are basically³ two research strategies to differentiate, either the quantitative or qualitative.

One main difference towards the qualitative method, is that researchers use numerical data in quantitative research approaches (Mayring, 2010, p. 17). With quantitative methods researchers try to model empirical relationships on a mathematic-statistical level to reduce the level of complexity (Raithel, 2008, p.8). Hereby, data is collected first in a standardized process and is further analyzed with the help of statistical methods. The results can eventually help to identify correlations between the analyzed variables (Gläser and Laudel, 2006, p.26). Therefore, quantitative research strategies are more explanatory, theory-testing and deductive (Raithel, 2008, p.8).

In contrast, qualitative oriented methods are more descriptive, theory-generating and inductive and their outcomes do not originate from statistical methods or other forms of quantification (Strauss and Corbin, 1996, p.3). Here, the rules of the research approach and methods are far less standardized, in order that researchers are open to results which might reveal just during the research process (Burzan, 2008, p.12). Qualitative data are more text-based, like expert interviews, but can also derive from images, video or audio material and the collection process is in general more time consuming (Kuckartz, 2014, p.14). The aim of qualitative research strategies is to understand and comprehend the defined research field in a precise and extensive way (Raithel, 2008, p.8).

The aim of this research project is to analyze the relationship between social incidences and CSR transparency, the relationship between social incidents and social performance as well as the relationship between social performance and financial performance. To do so, a quantitative research strategy is chosen, because

³ Between those two approaches researchers can also choose to follow the mixed methods approach, where quantitative and qualitative methods are combined (Kuckartz, 2014, p.33).



of the non-explorative character of the research and the use of numerical data to explain the certain relationships. Furthermore, the majority of prior researches conducted a quantitative research, e.g. for measuring the relationship between social incidents and CSR transparency (e.g. Patten, 1992; Deegan and Ranking, 1996; Deegan et al., 2000). For example, Deegan et al. (2000) determined the level of social disclosure by the use of a content analysis, where they transformed qualitative information into quantitative scales. Afterwards, they measured the relationship between incidents and level of disclosure empirically. Furthermore, the relationship between social performance and financial performance was also mainly measured quantitative (e.g. McWilliams and Siegel, 2000; Hull and Rothenberg, 2008; Padgett and Galan, 2010; Clarkson et al., 2013). For example, Hull and Rothenberg (2008) created a numerical score based on social performance attributes ratings of the Kinder, Lydenberg and Domini (KLD) database. Afterwards, they measured the relationship between social performance and financial performance (return on assets) by running a multivariate regression analysis.

2.5 Research ethics

Furthermore, ethical concerns that might arise during the research has to be taken into account. According to Diener and Crandall (1978), there are four main overlapping ethical principles. These principles include the consideration about harming participants, a lack of informed consent, an invasion of privacy and whether deception is involved. However, these considerations are especially relevant for a qualitative research strategy (Bryman, 2012, p. 135). For example, when conducting interviews, there is a risk of harming participants due to inappropriate research methods (experiments which could harm participants physically or mentally) or due to inappropriate research questions (which could harm participants future career aspects) (Bryman, 2012, p. 135). Based on the fact that the thesis conducts a quantitative research strategy, where it retrieves secondary data from databases, there is less risk of harming participants due to inappropriate research methods or invasion of privacy. Moreover, since the thesis uses data which



was gathered by a neutral third party (Thomson and Reuters), there is almost no risk of deception.

However, the thesis could address ethically sensitive subjects regarding the occurrence and consequences of social incidents. Social incidents imply negative effects on society, working-culture or environment and hence, can be seen as a negative outcome of a company. For example, certain circumstances, such as child labor or bad working conditions, trigger negative responses within the society. Nevertheless, the author assures to describe these incidents in an objective way. Moreover, to maintain the companies' right to privacy, the results are presented in a sample without the possibility to assign data to its companies.

2.6 Data collection

Important literature in the research field is collected from different electronic databases such as OneSearch, EBSCO Host / Business Source Premier, Web of Science. In order to integrate mainly reliable high-quality references, the author focused on journals which were peer-reviewed. Moreover, the author used the following keywords to integrate just relevant articles for the thesis and to minimize the results: *stakeholder theory*, *legitimacy theory*, *social incidents*, *social performance*, *financial performance*, *CSR*. The author tried to integrate most of the used references from high ranked journals with a connection to the research topic such as 'The Journal of Finance', 'Journal of Applied Accounting Research' or 'Strategic Management Journal'.

The data used for the empirical analysis of this research was collected from Thomson Reuter's Asset4 database, which is one of the leading providers of environmental, social and governance (ESG) data of more than 4,300 companies (Ribando and Bonne, 2010). The data framework integrates more than 750 objective data points and 250 key performance indicators and scores them in four categories: Environmental, Social, Corporate Governance, and Economic. Moreover, the author chose SPSS as the statistical software to perform the multivariate regression and to test the hypotheses of this bachelor thesis.



3 Theoretical framework

In the following, the author will describe the concept of corporate social responsibility (CSR). Deriving from that, the author explains the concept of social performance. Afterwards, the author describes relevant theories for the examination of the research questions, such as legitimacy theory and stakeholder theory. For developing the hypotheses, the author will describe the drivers (such as incidents) and outcomes (such as financial performance) of social performance. Moreover, the author explains the linkage between social performance to CSR transparency.

3.1. Definition of corporate social responsibility

Several CSR definitions can be found in the corporate and academic world (Sheehy, 2014). According to Freeman et. al (2010), the following concepts are included in the collective term “CSR”: the corporate social performance (Wood, 1991), corporate social responsiveness (Sethi, 1975), corporate citizenship (Waddock, 2004), corporate governance (Sacconi, 2006), corporate accountability (Pruzan and Evans, 1997), sustainability and the triple bottom line (Elkington, 1997) and corporate social entrepreneurship (Austin, Stevenson and Wei-Skillern, 2006).⁴ In general terms, all of these concepts seek to extend the obligations of firms to include more than financial considerations in business models (Freeman et. al, 2010).

These concepts refer among other things to five main dimensions (environmental, social, economic, stakeholder and voluntariness), which are circumscribed by several definitions (Dahlsrud, 2006). Dahlsrud (2006) examined 37 definitions of CSR and investigated the similarities in their statements. In Dahlsrud’s study, the CSR-definition of the Commission of European Communities (2001): “*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*”; was the most widespread definition due to the highest frequency count (286). This

⁴ For a detailed explanation of the single concepts, see the aforementioned references.



implies, that this definition was the most widely used definition in reports or websites.

Derived from the aforementioned research gap of impacts of social incidents on companies' performances and the importance of the social aspect, the author will focus in the following on the social dimension of the CSR definition.

3.1.1 The concept of social performance

Similar to CSR, the concept of social performance has received theoretical and empirical attention (Clarkson, 1988; Hocevar & Bhambri, 1989; Randall, 1989; Reed, Getz, Collins, Oberman, & Toy, 1990). Hence, there were several efforts to define the concept of social performance (Sethi, 1979; Preston, 1987; Carrol, 1979; Ullman, 1985). According to Semenova and Hassel (2013), social performance appeals to stakeholder management which advocates the interests of primary stakeholder groups (e.g. employees, community, suppliers). Principally, it centers on the review whether a company considers human rights conventions and practices. Employee relations represent considerations about employment policies and practices (e.g. employee health and safety or job satisfaction) (Bauer et al., 2009; Edmans, 2011). Community involvement describes general services for the community, such as donations or charitable initiatives. Suppliers represent the consideration of human rights in supplier practices (Semenova and Hassel, 2013).

3.1.2 Legitimacy theory

Legitimacy theory has been a highly influential theoretical perspective for explaining why companies provide extra voluntary social information and improve their social performance (Blaccioniere and Patten, 1994, Deegan et al., 1999, Rubinstein, 1989, Walden and Schwartz, 1997).

Legitimacy Theory asserts that organizations continually seek to ensure that their activities are perceived by outside parties as being "legitimate" (Brown and Deegan, 1998). Legitimacy is considered to be a resource on which an organization is dependent for survival, due to the power of stakeholders (sanctions, rejection of



cooperation etc.) (Deegan and Unerman, 2011). To gain legitimacy, the company needs to operate within the constant changing bounds and norms of the affected societies (Brown and Deegan, 1998). These unwritten bounds and norms are paraphrased as a “social contract” between the company and the affected parties of company’s operations, which needs to be fulfilled. In other words, the company has an unwritten social obligation to act in congruence of with society’s expectations (O’Donovan, 2000). If the company is not able to operate within these terms or it cannot comply with its obligations, it can be punished by the society by the termination of the social contract (e.g. by consumer boycotts, reduced demand, suppliers reducing the supply of labor and financial capital, etc.) (Deegan and Ranking, 1996).

Based on the legitimacy theory, it can be assumed that after a disclosure of an unexpected incident, companies use the disclosure of extra social information to legitimize their ongoing operations. There are several ways for a company to use the disclosure of social information to attain legitimacy. For example, disclosure could be used to correct a public misunderstanding of company’s social performance or to alter public’s expectations of the company’s social performance. Moreover, it is a medium to demonstrate company’s improved social performance or can distract from the social incident due to the focus on an improved performance in other areas (Lindblom, 1994). Furthermore, based on legitimacy theory, it can be assumed that after a disclosure of an unexpected incident, a company improves its social performance. Werre (2003) considers the coverage of a negative incident and the resulting negative reaction of the society as a first instance to induce management in a reactive manner to take an increased interest in CSR issues. This increased interest, triggered by the risk of a jeopardized legitimacy, can result in an improvement of social performance.

3.1.3 Media agenda setting theory

Prior studies (Brown and Deegan, 1998; Deegan et al., 2000; Aerts and Comier, 2009) include the media agenda setting theory when formulating their hypothesis about the relationship between social incidents and company’s level of CSR transparency.



Media agenda setting theory assumes a relationship between the intensity given by the media to various issues and the degree of salience these issues have for the public (Ader, 1995). Hence, media is able to shape public's priorities by increasing the media attention to particular issues and consequently, increase public's concerns about it (Brown and Deegan, 1998). These published issues can be classified into obtrusive and unobtrusive events. In case of unobtrusive events, the public relies on the information provided by the media, because of the missing interpersonal discussion for information (Zucker, 1978; Blood, 1981).

Hence it can be argued, that the media can be particularly effective for driving public's concern about the social performance of particular companies. Connecting this consideration with the Legitimacy Theory, when such concern is established, companies will respond by increasing the level of CSR transparency within their annual report.

3.1.4 Stakeholder theory

Most of the previous studies which indicate a positive relationship between corporate social performance and financial performance are grounded on the Stakeholder Theory (Ruf et al., 2001; Baird et al., 2012; Jayachandran et al. 2013; Wang and Choi, 2013). Stakeholder Theory sees organizations as a part of a broader social system wherein it interacts with other stakeholder groups within the society (Deegan, 2002, p.295). A Stakeholder can be defined as "any identifiable group or individual who can affect the achievement of an organizations' objectives or is affected by the achievement of an organization's objectives" (Freeman and Reed, 1983, p.91). In general, these different stakeholder groups defend different views about how the organization should handle and optimize its business. Hence, it assumes that there is a variety of social contracts negotiated between these different groups and the organization (Deegan and Unerman, 2011, p. 348). Within the Stakeholder Theory, there are two branches which can be classified into the ethical (or normative) and the managerial branch. These branches differ in the discussion about the relevance of stakeholder power.



The ethical branch states that companies should manage the business for the benefit of all stakeholders and every stakeholder has the right to be provided with information about how the organization is affecting them (Deegan and Unerman, 2011, p.350). The management pursues to give every stakeholder's interest equal consideration and tries to reach an optimal balance among them (Hasnas, 1998, p.32). Consequently, disclosures are considered to be responsibility driven (Deegan and Unerman, 2011, p.370).

An alternative, more organization-centered view about the power of stakeholders is the managerial branch of the Stakeholder Theory, which assumes that organization's priority is to satisfy the information demands of those stakeholder groups, which are important for the organization's ongoing survival (Deegan and Unerman, 2011, p. 370). If a stakeholder receives information, it is dependent upon how powerful it is noticed to be. The power of a stakeholder can be determined in terms of the rareness of resources controlled by the respective stakeholders. Hence, the disclosure of information is seen as a management strategy (Deegan and Unerman, 2011, p.353f.).

When connecting the theoretical concept of stakeholder theory with the concept of social performance, it can be concluded that implementing social responsible strategies can be seen as a method of stakeholder management. By applying social responsible aspects, the management complies with stakeholder's expectations about a responsible management. A responsible management could encourage stakeholders to provide more resources to support companies' further operations and realizing therefore a financial improvement (Yang & Zhou, 2001). Hence, the application of the stakeholder theory can be a supportive argument for the implementation of social responsible business strategies. Moreover, Waddock and Graves (1997) as well as Orlitzky et al. (2003) argue that the satisfaction of various stakeholder groups drive to positive relations between social and financial performance.



3.2 Drivers of social performance

According to Aguilera et. al (2007) it is important to question what influences companies to engage in increasingly robust CSR strategies and hence, for an improvement of a company's social performance. Prior literature (e.g. Swanson, 1999; Meznar and Night, 1995; Child and Tsai, 2005) introduces approaches which consider that CSR is extrinsically (Aguilera et al., 2007; Swanson, 1999) or intrinsically (Carroll, 2000; Lindenberg, 2001; Quinn and Jones, 1995) driven. Moreover, Child and Tsai (2005) argue for a parallel existence of these two approaches.

Intrinsic drivers consider motivations within the company that could lead to a higher social performance. It represents the view, that CSR is driven by morality ("what is right") (Carroll, 2000; Lindenberg, 2001) and hence, centers mainly on managerial motivations (Heugens et al., 2008). It considers for example individual and organizational values, management commitment, organizational identities or cultures (Banerjee et al., 2003; Bansal, 2003).

On the contrary, extrinsic drivers describe external pressures (e.g. media pressure, regulation or shareholder demands) as a relevant motivation for implementing CSR strategies (Muller and Kolk, 2011). According to Carroll et al. (1999), external pressures mirror the idea, that social behavior is a responsibility to society. These could emerge due to e.g. disapproval of stakeholder groups or public concerns, competitive pressure arising from markets (demand of environmental consciousness in production processes of products or services) or regulatory pressures emerging from governmental actions (e.g. environmental or societal legislation) (Muller and Kolk, 2011).

Connecting these external drivers with the media agenda setting theory, indicates that the publication of social incidents brings an increased attention to certain social issues to the public. Public's awareness about a specific incident can be sharpened by the media. Consequently, this increased attention puts more pressure on corporations to deal with their social and environmental responsibilities, public image and legitimacy (O'Donovan, 2000). Linking this assumption to the



legitimacy theory, it is necessary for the company's survival to maintain their legitimacy and enlarge on society's expectations about its performance towards the incident. One method to deal with this increased pressure is to publicly disclose information which addresses the company's social performance (Neu et al, 1998, Patten, 1992). There are several channels to inform the society about improvements in non-financial performances, such as the sustainability report, code of ethics and code of conduct, letter from the president of the company or through the webpage, social networks or television. The most widely used medium for communicating social information is the annual report (Deegan and Gordon, 1996, Gray et al, 1996). Assuming company's social performance is adapted on society's expectations, managers would have an incentive to inform their stakeholders about the improved performance. Hence, it could be assumed that the level of CSR transparency about company's social performance within this disclosure is greater than before the incident.

Hypothesis 1 (H₁): *The disclosure of an incident affects the level of CSR transparency of involved companies*

As already explained above, the disclosure of a social incident could trigger several external pressures, for example public concerns about specific working conditions or the violation of policies (e.g. child labor) (Blaccioniere and Patten, 1994, Deegan and Ranking, 1996; Deegan 1999, Deegan et. al., 2000). Again, connecting this pressure of the society with the legitimacy theory, it can be assumed that companies change their social performances to maintain legitimacy. Hence, social incidents (and consequently social pressures) could be seen as an important influence on social performance (Blacconiire and Patten, 1994; Were, 2003). Thus, the author assumes that after a disclosure of a social incident, the companies provide a higher level of social performance, based on social expectations.

Hypothesis 2 (H₂): *The disclosure of a social incident affects the social performance of involved companies*



3.4 Financial outcomes of social performance

According to Hassel and Semenova (2013), there could be an incentive to extend firm obligations and invest in CSR in the assumption that it creates a form of an intangible asset for the company, which connects to the long-term performance achieved by business benefits. In the last decades, there were several attempts to scrutinize these business benefits in a theoretical and empirical way. According to Weber (2008), there are five main areas of business benefits. Firstly, positive effects on company image and reputation (Hansen, 2004; Heal 2005) can arise from CSR-related strategies, based on the assumption that image and reputation can affect company competitiveness (Gray and Balmer, 1998). Secondly, CSR has positive effects on employee motivation retention and recruitment (Nielinger, 2003; Hansen, 2004; Bertelsmann Stiftung, 2005) due to improved reputation and an increase of the number of motivated workers in a better working environment (COM, 2001). Another business performance are the cost savings (Schaltegger and Burritt, 2005), due to implementation of sustainability strategies (e.g. substitution of materials, improved access to capital based on higher sensitivity of investors to sustainability issues). A further benefit is that company's revenue increases from higher sales and market share (Epstein and Roy, 2001) because of improved brand image or market development. The fifth business area of CSR business benefits is the CSR-related risk reduction or management due to the avoidance of negative press or customer boycotts (Ebstein and Roy, 2001). All of these benefits are connected to a desired positive financial outcome (e.g. by cost savings, improved image and therefore higher investments etc.)

The managerial branch of the stakeholder theory states, that companies focus on the expectations of the most powerful stakeholder groups. According to Hoeffler et al. (2010), a company's social performance activities are a strategic leverage that can be used to build and strengthen relationships with their stakeholders. Hence, it could be assumed that stakeholders, driven by their natural sense of responsibility, demand a responsible management of company's operations. Consequently, supposing that a satisfaction of these stakeholder groups brings along some financial benefits due to the power of the stakeholders (such as an improved image and therefore higher investments or cost savings due to improved access to capital),



it can be concluded that an improvement of the social performance has a positive impact on the financial performance.

Therefore, the third hypothesis can be formulated:

Hypothesis 3a (H_{3a}): *Social performance has a positive impact on financial performance*

There are different measurement strategies regarding the measurement of financial performance. Financial performance can be seen as a multidimensional construct (Gentry and Shen, 2010). In general, it can be categorized in three different forms, the market-based measurement, the accounting-based measurement and the perceptual⁵ measurement (Orlitzky et. al 2003). Prior studies used either accounting-based measurements such as accounting returns (return on asset (ROA) or return on equity (ROE)) (Ruf et. al, 2001; Hull and Rothenberg, 2008; Van der Laan et. al, 2008) or market-based measurements such as investor returns (Tobin's q or stock price) (Godfrey et.al, 2009; Schreck, 2011; Baird et. al, 2012; Jaychandran et. al, 2013) or both (Tang et. al, 2012; Blanco et. al, 2013).

The use of these different measurement methods derives from the fact, that these two methods describe different perspectives. Theoretically, accounting-based measures are generally seen as a reflection of the past, short-term financial performance of a company, while market-based measures reflect the future, long-term performance of a company (Hoskisson et al., 1994). However, some studies (Venkatram and Ramanujam, 1986; Gentry and Shen, 2010) argue that accounting-based and market-based measurements may not be correlated (or just at a low level) and hence, they may be unrelated. This is also reflected by the different outcomes of prior studies, e.g. that accounting-based measures appears to demonstrate a stronger positive relationship between CSR and financial performance than market-based measurements (Orlitzky et. al, 2003; Margolis et. al, 2009). Therefore,

⁵ A further measurement method is the perceptual measure of financial performance such as surveys. However, based on the fact that the author is using objective, secondary data for her analysis, there is no need to deepen this method.



researchers should deal with the differences between accounting profitability and market performance, and hence, develop separate theories to explain their variation (Gentry and Shen, 2010). Derived from this statement, Grewatsch and Kleindienst (2017) recommend that researchers should define more clearly which aspect of firm performance they are interested in and develop the theory accordingly.

Based on the fact, that the author explains his research plan by the support of the Stakeholder Theory which states that stakeholders have a long-term interest in the company's survival (Freeman et. al, 2010), the application of a market-based measurement (which reflects the long-term performance of the company) seems appropriate. Moreover, there was a slightly preference of the market-based measurement in prior research (Grewatsch and Kleindienst, 2017). An advantage of market-based measures is their contemporariness, which means a faster reflection of changes than accounting-based measures (Grewatsch and Kleindienst, 2017). Moreover, Tobin's q as one indicator of market-based measurement, has been used to overcome shortcomings of accounting-based measures of financial performance (Servaes and Tamayo 2013). Shortcoming can be seen for example in Orlitzky's statement (2003). He states that "accounting returns are subject to managers' discretionary allocations of funds to different project and policy choices". Thus, accounting-based measurements can rather indicate internal decision-making capabilities and managerial performance than external market reactions (Orlitzky et. al, 2003). Hence, opponents could argue with a potential occurrence of a lack of objectivity and informational value (Baird et a., 2011). To avoid this lack of objectivity and support the assumption of an improvement in the company's long-term performance when implementing CSR strategies, the author will use Tobin's q as a market-based measurement for the assessment of financial performance.



4. Empirical method

This chapter contains the empirical methods which are used for the study. The chapter includes information about the collected data, the empirical models and an explanation about the formulated equations.

4.1 Multiple Regression

There are different multivariate methods for measuring relationships between variables. For example, logistic regression predicts and explains a binary categorical variable. It is used to identify the metric independent variables which impacts the group membership in the dependent variable (Hair et al, 2010, p.338-339). Due to the fact, that the author does not want to predict a non-metric dependent variable, conducting a logistic regression does not seem appropriate.

Furthermore, another multivariate method is the multiple regression analysis. Multiple regression analysis is a form of general linear modeling and a multivariate statistical method used to scrutinize the relationship between a single dependent variable and one or more independent variables (Hair et al., 2010, p. 169). In the thesis, the author sets three different hypotheses. The first hypothesis contains company's level of CSR transparency as a dependent variable and social incidents as an independent variable. The second hypothesis contains social performance as a dependent variable and social incidents as an independent variable. The third hypothesis contains financial performance as a dependent variable and social performance as an independent variable. Hence, in each equation a single metric dependent variable would be predicted by several metric independent variables (independent variable and control variables). Thus, the application of a multivariate regression analysis seems appropriate for conducting the research questions.

Moreover, another multivariate method is the structural equation model (SEM). It examines the structure of interrelationships due to a series of equations, which presents all the relationships among the dependent and independent variables (Hair et al., 2010, p.19-20). This multivariate method also seems to be appropriate for the measurement of the research questions, especially for combining research question



one and two. However, the use of SEM can be more complex in comparison to run just another multivariate regression analysis. Thus, in the following, the author will use a multivariate regression model to measure the relationships between the dependent and independent variables.

For measuring the strength of a linear association between the variables, the author conducts a Pearson product-moment correlation test. The decision for this specific test derived from the fact, that the author uses quantitative data in the thesis. If there would be used ordinal data, the author would have conducted a Spearman's rank-order correlation (Hair et al., 2010, p. 212).

The regression coefficient (unstandardized coefficient) b and the standardized coefficient beta present the change in the dependent measure for each unit change in the independent variable. The unstandardized reflects the amount by which dependent variable changes when changing the independent variable by one unit and keeping the other independent variables constant. On the contrary, the standardized coefficient is measured in units of standard deviation (Hair et al., 2010, p. 211). Due to the fact, that the used variables within the equations include different scales (such as percent or euros), the author will use the standardized coefficient beta in the following thesis. The standardized coefficient beta provides the advantage, that the relative importance (the strength of the effect) of each coefficient in a regression model can be compared. The higher the absolute value, the stronger the effect.

4.2 Data Description and sample examination

For the period 2012-2016, the author examines companies which are listed in Sweden, France, Germany, United Kingdom, Italy and the Netherlands, which are all European Union Member States. The sample consists of 306 listed firms, with 152 (50%) companies from the UK, 52 (17%) companies from France, 37 (12%) from Germany, 37 (12%) from Sweden, 14 (4.5%) from Italy and 14 (4.5%) from the Netherlands. The author is aware about the different weight proportions of the countries. However, these circumstances derived simply from the fact, that more



companies are listed in the UK than in comparison to (e.g.) Italy. Though, the author assumes the different weight proportion will not be a problem for conducting the regression models.

Furthermore, financial companies are excluded from the sample. This is derived from the fact that their financial statements are not comparable with the rest of the firms (Reguera-Alvarado, Fuentes and Laffarga, 2017) due to the differences in their capital structure from non-financial firms (Lee and Li, 2016). Hence, there are three different industries used in the thesis where social incidents occurred, which are 132 companies operating in industrials (43%), 76 companies operating in consumer goods (25%) and 98 companies operating in consumer services (32%).

To ensure the statistical power and generalizability of the research (Hair et al., 2010, p.175), the author provides approx. 300 companies used in the sample size. Furthermore, sample size has also an impact on the generalizability of the results by the ratio of observations to independent variables (Hair et al., 2010, p. 175). To ensure the generalizability, a minimum ratio of 5 observations per independent variable is required. Due to the fact that the author uses approx. 300 companies, which would allow a high number of independent variables, there is no problem with the generalizability of the study.

When considering a company's reaction to a social incident in their disclosure, the timing of such an incident in relation to company's disclosure has to be considered. Due to the risk that the incidents are an "after balance date event" (Deegan, et al., 2000), which indicates that the incident occurred after the company's financial year, the author measures the level of CSR transparency in the following year. It can be assumed that if an incident occurred, the company will address this incident by including extra information in the disclosure in the year of publication as well as in the following years. Furthermore, the author will measure the financial performance of a company after the change of social performance, hence, in the following year. Figure 2 shows a visualization of the timeline of the research.

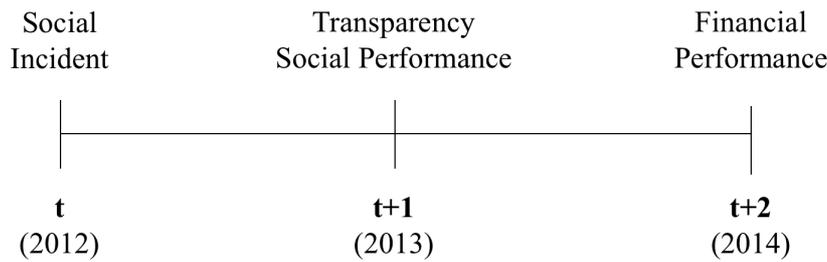


Figure 2: Timeline of research

4.3 Regression models

The formulated regressions models are based on prior research. The choice of control variables is explained at the end of the chapter.

The first hypothesis examines the impact of social incidents on company's level of CSR transparency. Deegan et al. (2000) examined the impact of social and environmental incidents on the level of company's disclosure. Based on this study, the first equation will be formulated (table 1 represents an explanation for the used variables):

Equation testing hypothesis 1:

$$\text{TRANSPARENCY}_{i,t+1} = \beta_0 + \beta_1 \text{INCIDENTS}_{i,t} + \beta_2 \text{LNASSETS}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{ROA}_{i,t} + \varepsilon \quad (1)$$

Moreover, the second hypothesis examines the impact of social incidents on company's social performance.

Equation testing hypothesis 2:

$$\text{SP}_{i,t+1} = \beta_0 + \beta_1 \text{INCIDENTS}_{i,t} + \beta_2 \text{LNASSETS}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{ROA}_{i,t} + \varepsilon \quad (2)$$

Furthermore, the third hypothesis examines the impact of social performance on financial performance. The following equation is based on prior research (McWilliams and Siegel, 2000; Hull and Rothenberg, 2008; Padgett and Galan, 2010; Clarkson et al., 2013), who examine the relationship between social and financial performance by using Tobin's q as a dependent variable.



Equation testing hypothesis 3:

$$LNTOBINSQ_{i,t+3} = \beta_0 + \beta_1 SP_{i,t+1} + \beta_2 LNASSETS_{i,t+1} + \beta_3 LEV_{i,t+1} + \beta_4 QR_{i,t+1} + \varepsilon \quad (3)$$

Abbreviation	Variable	Definition
INCIDENTS	Social Incident	Sum of eleven categories of social controversies
TRANSPARENCY	CSR Transparency	Variable for measuring level of CSR transparency
SP	Social Performance	Sum of social indicators
LNTOBINSQ	Tobin's q	Logarithm of market value divided by total assets value
LNASSETS	Size	Logarithm of total assets
ROA	Return on Assets	Net income divided by total assets
LEV	Leverage	Total debt divided by total equity
QR	Quick Ratio	Liquidity, measured by inventories minus current assets divided by current liabilities
ε	Error term	Error term

Table 1: Explanation of variables

4.3.1 Dependent Variables

4.3.1.1 Dependent variable equation model (1)

The first equation model includes the *level of CSR transparency* as a dependent variable. CSR transparency will be measured by the variable ‘Vision and Strategy’ provided from the Thomson and Reuters database. ‘Vision and Strategy’ is an indicator that assesses the commitment and effectiveness of a company’s management towards the creation of an overarching vision and strategy that integrates financial and extra-financial aspects into its day-to-day decision-making processes. It mirrors a company’s capacity to show and communicate that it integrates the economic, social and environmental dimensions into its business decisions. The indicator is driven by a company’s policy (whether a company integrates financial and extra-financial information and communicate all extra-financial transparently), implementation, monitoring (whether the company share relevant results of a monitoring process and conduct regular audits), improvements



(whether a company sets specific quantitative object to be achieved and comment on results). The outcome of the indicator is for example measured by the consult of GRI reports, global reporting, the CSR transparency of relations to stakeholders and due to precautionary and accuracy principles (such as consulting third-party audits) (thomsonandreuters.com, 2018). The indicator is expressed as a percentage (0-100%), where 0% indicates a very low or no CSR transparency and 100% states a full-implemented CSR transparency.

4.3.1.2 Dependent variable equation model (2)

The dependent variable in the second equation model is *social performance*. Prior studies conducted different measurement methods to determine social performance, for example forced-choice survey methods (Aupperle, 1991; Aupperle et al., 1985), content analysis of corporate documents (Wolfe, 1991), behavioral and perceptual measures (Woktuch and McKinney, 1991) or Moskowitz' reputational scales (Bowman and Haire, 1975; Preston and O'Bannon, 1997). Furthermore, several independent rating agencies such as Kinder, Lydenberg and Domini (KLD), Bloomberg and Thomson and Reuters ASSET4 which evaluates companies based on their social performance were used as well.

The most popular method to measure a company's social performance is to rely on ratings from KLD (Hull and Rothenberg, 2008; Godfrey et al., 2009; Baird et al., 2012; Blanco et al. 2013; Jayachandran et al., 2013). Prior literature (Cho et al., 2012; Kim et al., 2012) considers KLD scores as reliable proxies for ESG performance (Hassel and Semenova, 2013). However, due to the fact that the origin⁶ KLD database included solely the 3,000 largest U.S. companies in the U.S. equity market, prior research which relies on KLD rankings focused on American companies. For example, Kim et al. (2012) measured Americans company's social performance by KLD rating.

⁶ Since 2013, the database extends its added the "Non-US Universe" which includes for example companies listed in the UK, Australia, South Africa and from emerging markets (MSCI ESG Research INC, 2015).



Furthermore, another popular database for measuring social performance is ASSET4, which was also widely used in prior studies, especially for the examination of cross-national differences in social performance (Iannou and Serafeim, 2012; Luo et al. 2014; Cheng et al. 2013). Moreover, the Linneaus University provides access to the Thomson and Reuters ASSET4 database. Hence, the author measures social performance on the basis of the ASSET4 social scores.

Asset4 provides social performance indicators in four main categories: workforce (including indicators such as diversity and opportunity, employment quality, health and safety, training and development), human rights, community and product responsibility. These consider aspects such as working conditions, job satisfaction, human rights, the quality of produced goods/services and the regard of customer's data privacy (thomsonandreuters.com, 2018). The indicators are expressed as a percentage (0-100%), where 0% indicates a very low or no social performance and 100% states a high-standard social performance. The author assesses the weight of these indicators as equally. Hence, the author will sum each score and use the average for the further analysis.

4.3.1.3 Dependent variable equation model (3)

The third equation model includes the *financial performance* as a dependent variable. Referring to the discussion in chapter 3.4, the author decided to use a market-based measurement and assessed Tobin's q as an appropriate variable for measuring company's financial performance. Tobin's q is the ratio of company's market value to total asset value.

4.3.2 Independent variables

4.3.2.1 Independent variable equation model (1) and (2)

The independent variable for equation model 1 and 2 is social incidents. Thomson and Reuters provide eleven indicators of social controversies, including child labor controversies, customer controversies, employment health and safety controversies, freedom of association controversies, human rights controversies, diversity and opportunity controversies, public health controversies, wages or working



conditions controversies and product responsibility controversies such as customer health and safety and privacy controversies. The author rates all incidents equally.

4.3.2.2 Independent variable equation model (3)

The independent variable for equation model 3 is social performance (see 4.3.1.2).

4.3.3. Control variables

4.3.3.1 Control variables equation model (1) and (2)

Aerts and Comier (2009) who measured the annual report environmental disclosure as well as Ionannou and Serafeim (2012) who measured the drivers of social performance, included control variables such as company's size, leverage and return on assets in their equation models.

Researchers (Baum and Oliver, 1991; Deephouse and Carter, 2005) describe company's size as an antecedent of legitimacy. Company's size has an impact on company's visibility to the public and tends to cause increased public scrutiny (Aerts and Comier, 2009). Consequently, it could be concluded that there is a higher demand for information about company's operations. Moreover, larger companies have the greater capability of resources which are required regarding society communication capabilities (Charles-Henri and Stéphane, 2002), while the society also has greater expectations of social responsibilities (Yang et al., 2010). These greater expectations about social responsibilities could trigger an improved social performance. Company's size is measured by the logarithm of assets $\ln(\text{assets})$.

A further included control variable is leverage, measured by *total debt divided by total equity*. There is a disagreement in prior research about the relationship between leverage and social disclosure. For example, Roberts (1992) and Richardson and Welker (2001) found a positive relationship, and in turn, Comier and Magnan (2003) found a negative relationship, while Eliji-do-Ten (2001) does not find any significant relationship. Nevertheless, the author decides to include leverage as a precaution in the equation. A high leverage indicates that a company financed a large proportion of its capital by debts. Due to the fact that these debts



entail payment obligation towards creditors, it could be assumed that the higher the leverage is, the more likely managers would give priority to creditors instead of giving it to other stakeholders (Roberts, 1992). This implies that even when the society expects more CSR transparency and an improved social performance, management could be restricted regarding investments in social strategies due to payment priorities towards creditors.

Another included control variable is the financial performance, measured by *return on assets (ROA)*. Several prior research reported a positive relationship between a company's level of CSR disclosure and its ROA (Cochran and Wood, 1984; Cormier and Magnan, 1999, 2003; McGuire, Sundgren, and Schneeweis, 1988; Mills and Gardner, 1984). It is assumed, that companies with good financial performances are more likely to disclose their performances (Aerts and Comier, 2009). Thus, Murray et al. (2006) report that companies with higher returns are liable to provide more total and voluntary social and environmental disclosure.

4.3.3.2 Control variables equation model (3)

Deriving from the prior research (McWilliams and Siegel, 2000; Hull and Rothenberg, 2008; Padgett and Galan, 2010; Clarkson et al., 2013), the author includes control variables (such as size, liquidity and leverage) which affect both, social performance and financial performance. Liquidity is measured by inventories minus current assets, divided by current liabilities. Whenever a company has a high degree of liquidity, the management has a certain degree of choice how to use the accessible cash. Hence, companies which are provided with a high liquidity could be more likely willing to invest in social projects (Surroca et al., 2010). Leverage and size are included for the reasons discussed in chapter 4.3.3.1.

4.4 Assumptions of multiple regression

Before testing the multivariate model, it is essential to examine whether the data meets basic statistical, multivariate assumptions. These assumptions about the relationships between independent and dependent variables are considered, because



of their possible effect on the statistical calculation for the multivariate regression (Hair et al., 2010, p. 181-182).

4.4.1 Normality

Multiple regression assumes that residuals are normally distributed in the error term of the relationship between the independent and dependent variables in the regression model (Hair et al., 2010, p. 185). To ensure the normality, the author can simply implement a histogram of residuals to check visually if there is a normal distribution. The author used log-transformation for variables which showed a non-normal distribution. This was the case for ASSET, TOBINSQ, INCIDENTS and LEVERAGE. The author transformed the variables and checked whether the overall results increased after the transformation. This was appropriate for the transformed variables LNASSET and LNTOBINSQ, which were therefore used in the research.

4.4.2 Homoscedasticity

The author used the Glejser test (Glejser, 1969) to examine the homoscedasticity assumption of multivariate regressions. The test estimates the absolute values of the residuals from the multivariate regression for all independent variables. If these coefficients are significant, heteroscedasticity exists (oxfordreference.com, 2018; Hair, 2010, p.185). For the present data, none but one variable was significant on the 5 percent level. Heteroscedasticity was found for the relationship between LNASSETS and TRANSPARENCY, the relationship between LNASSETS and SP and as well as for LNASSETS and LNTOBINSQ. This is a problem and inverting and transforming the variable did not yield to a change. Therefore, the results of this coefficient should be interpreted with caution concerning the heteroscedasticity of the variable.

4.4.3 Linearity

It is necessary that there is a linear (straight-line) relationship between the independent and the dependent variables (Hair et al., 2010, p. 183). To test the



linearity, the author uses scatterplots. The author finds a linear relationship between the independent and dependent variables.

4.4.4 Multicollinearity

Finally, multiple regressions are based on the assumption that the independent variables cannot be linearly predicted from the others. Multicollinearity exists, whenever two or more predictors are correlated moderately or highly. In empirical research, there is often a certain degree of multicollinearity, which is not necessarily a problem. However, a high degree of collinearity causes a problem because it goes along with an increase of the standard error of the coefficients of the regression, yielding to biased estimations of the standardized coefficients (Hair et al., 2010, p. 200-202; Backhaus et al. 2016, p. 107).

To detect multicollinearity a first reference point is a correlation matrix. In this research the author found no signs of high degrees of correlations between the key variables of the models. Moreover, the author checked for the variance inflation factors (VIF) in each model. All values were under the value of 5, which is a common critical threshold in the literature (Backhaus et al., 2016, p. 108). Therefore, there is no problematic multicollinearity in this research.

4.5 Outliers

Outliers are observations, which are not congruent with the majority of the rest of the data sample. (Rousseeuw; Bert; Zomeren, 1990, S.633). There are different methods to identify outliers. One can distinguish between univariate, bivariate and multivariate methods (Hair et al., 2010, p. 66).

In this research context, a multivariate method according to Hair et al. (2010) is chosen because the research design includes more than two variables. This leads to a situation where “the researcher needs a means to objectively measure the multidimensional position of each observation relative to some common point.” (Hair et al. 2010, p. 66). A classic measure to detect multivariate outliers is to compute the Mahalanobis distance D^2 (Rousseeuw; Bert; Zomeren, 1990, p. 633). Mahalanobis D^2 measures the distance between each data point in a multidimensional space (cloud) towards a mean center of all variables used in the



multivariate analysis (Rousseeuw; Bert; Zomeren, 1990, p. 633). Therefore, one gets a certain value for each observation. In general, the higher the value for the Mahalanobis distance, the greater the distance between the center and the observation (Hair et al. 2010, p. 66).

The Mahalanobis measure can be tested for significance dividing D^2 by the number of independent variables involved in the regression (D^2/df). Applying the rules of thumb by Hair et al. (2010, p. 66), observations having a greater value than 3 can be identified as possible outliers. (Hair et al. 2010, pp. 66-67).

For this research, the author used SPSS software to measure Mahalanobis distances for each single multivariate regression. Based upon these results the multiple regression was performed with and without the outliers in order to decide whether to retain or to delete the outliers. The detected observations were deleted in all regressions because the outliers changed the results (R^2 and coefficients) significantly. Consequently, the number of outliers distinguish from every single regression used in this thesis.

Following the procedure, the author detected 37 outliers.



5 Results

In this chapter, the author presents descriptive statistics of the variables, including a person correlation. Furthermore, the results from the three regression models will be presented.

5.1 Descriptive statistics

Table 2.1 presents the descriptive statistics of 269 companies who are listed in European Union Member States for the variables used in the equations. The table includes means, standard deviation, skewness and kurtosis. The mean of the depend variables are 94.61% for TRANSPARENCY, 61.10% for SP and -0.081 for LNTOBINSQ. Furthermore, most of the variables have in general a skewness close to 0, which indicates for a normal distribution. However, the variable INCIDENTS has a skewness of 2.898 which could indicate for heavier tails. Moreover, LNTOBINQ, INCIDENTS, LEV and QR provide also a high kurtosis of 2.181, 6.448 and 1.963 (and 11.597 in t+1) and 2.355, which portends a stronger peak. However, since the sample size includes 269 observations, the author can be less concerned about non-normal values (Hair et al., 2009, p.70).

Variable	Observations	Mean	SD	Skewness	Kurtosis
TRANSPARENCY _{t+1}	269	94.61	24.528	-0.941	-0.362
SP _{t+1}	269	61.104	20.361	0.024	-1.321
LNTOBINSQ _{t+2}	269	-0.081	0.835	0.275	2.181
INCIDENTS _t	269	0.900	0.286	2,898	6.448
LEV _t	269	72.503	71.271	0.811	1.963
ROA _t	269	7.131	6.268	0.510	1.394
LNASSET _t	269	15.137	1.436	0.180	-0.455
LEV _{t+1}	269	70.145	108.922	-0.759	11.597
QR _{t+1}	269	0.837	0.424	1.120	2.355
LNASSET _{t+1}	269	15.158	1.526	0.104	-0.320

Table 2: Descriptive Statistics

Table 2.2 presents the Pearson correlation between the key variables of the equations. There are positive low degree linear correlations between INCIDENTS,



TRANSPARENCY and SP, all at a 5% significance level. Moreover, SP and LNTOBINSQ correlate negative on a low degree (-0.124) at a 10% significance level. In addition, there is a positive medium-high degree correlation between TRANSPARENCY and SP on a 5% significance level (0.562) and a negative low degree correlation between INCIDENTS and LNTOBINSQ at a 5% significance level (-0.229). Nevertheless, the general relatively low correlation coefficients close to zero make it clear that they cannot be used for deeper interpretations about causal cause-and-effect relationships. Hence, the author will not deepen the correlation in the analysis chapter. Finally, the low correlation values portend that multicollinearity was not a problem in this thesis, which was even proved by the unreported VIF values.

	INCIDENTS	TRANSPARENCY	SP	LNTOBINSQ
INCIDENTS	1			
TRANSPARENCY	0.182**	1		
SP	0.15**	0.562**	1	
LNTOBINSQ	-0.229**	-0.255**	-0.124*	1

Table 3: Pearson Correlation

*(P-value of the coefficients are presented in parentheses (two-tailed). ***, ** and * indicate a significant of less than 1%, less than 5% and less than 10%, respectively)*

5.2 Regression results

5.2.1 Impact of social incidents on company’s CSR transparency

The author examined the equation 1 with TRANSPARENCY as the dependent variable. The results of the impact of incidents on company’s level of CSR transparency is presented in Table 2.3 and 2.4.

Summarized in Table 2.3, the first equation is significant at one percent level which means that the equations are composed with high credibility. The dependent variable TRANSPARENCY has an adjusted R² of 0.228. Hence, the independent variables (LEV, ROA, LNASSET and INCIDENTS) predict 22.8% of the variance of the dependent variable, TRANSPARENCY.



Equation	Dependent variable	Adjusted R ²	F-value	Significance
1	TRANSPARENCY	0.228	20.839	0.000

Table 4: Model summary of Equation 1

Table 2.4 presents the result from the Equation 1. It shows, that the relationships between incidents and CSR transparency, leverage and CSR transparency and return on assets and CSR transparency are negative. However, these relationships are all statistically insignificant at any conventional levels. Contrary, the relationship between LNASSETS and CSR transparency is positive and indicates a significance of less than one percent.

	t	Significance	Standardized Coefficient Beta
INCIDENTS	-0.081	0.935	-0.004
LNASSETS	8.193	0.000	0.490
LEV	-0.377	0.706	-0.023
ROA	-0.494	0.622	-0.029

Table 5: Coefficients of the first equation with TRANSPARENCY as dependent variable

5.2.2 Impact of social incidents on company’s social performance

The author examined the equation 2 with SP as the dependent variable. The results of the impact of social incidents on company’s social performance is presented in Table 2.5 and 2.6.

Summarized in Table 2.5, the second equation is significant at one percent level which means that the equations are composed with high credibility. The dependent variable is SP and has an adjusted R² of 0.279. This indicates, that just 27.9% of the variance of the dependent variable (social performance) is explained by the model.

Equation	Dependent variable	Adjusted R ²	F-value	Significance
1	SP	0.279	28.467	0.000

Table 6: Model summary of Equation 2



Table 2.6 presents the result from the Equation 2. It shows, that the relationships between incidents and social performance, leverage and social performance, and return on assets and social performance are negative. However, these relationships are all statistically insignificant at any conventional levels. Contrary, the relationship between LNASSETS and social performance is positive and indicates a significance of less than one percent.

	T	Significance	Standardized Coefficient Beta
INCIDENTS	-1.028	0.305	-0.054
LNASSETS	10.186	0.000	0.571
LEV	-0.756	0.450	-0.041
ROA	1.291	0.198	-0.068

Table 7: Coefficients of the second equation with SP as dependent variable

5.2.3 Social Performance impact on Financial Performance

The author examined the equation 3 with LNTOBINSQ as dependent variable. The results of the impact of incidents on company's level of CSR transparency is presented in Table 2.7 and 2.8.

Summarized in Table 2.7, the third equation is significant at one percent level which means that the equations are composed with high credibility. The dependent variable is LNTOBINSQ and has an adjusted R² of 0.298.

Equation	Dependent variable	Adjusted R ²	F-value	Significance
1	TOBINSQ	0.298	31.899	0.000

Table 8: Model summary of Equation 3.

Table 2.8 presents the result from the Equation 3. It shows, that the relationships between LNASSETS and LNTOBINSQ and LEV and LNTOBINSQ are positive and are significant on a statistical level of less than one percent. Moreover, the standardized coefficient beta of 0.163 indicates that a change of one standard deviation in the independent variable (SP) results in a 0.163 standard deviation's increase in the dependent variable (LNTOBINSQ). Furthermore, there is a positive relationship between SP and LNTOBINQ at a 10 percent significance level.



Furthermore, there is a positive relationship between LNTOBINSQ and QR at a one percent level and negative relationships between LNTOBINSQ and LNASSETS and LNTOBINSQ and LEV at a one percent level.

	t	Significance	Standardized Coefficients Beta
SP	2.776	0.006	0.163
LNASSETS	-6.866	0.000	-0.443
LEV	-4.056	0.000	-0.215
QR	0.655	0.000	0.193

Table 9: *Coefficients of the third equation with LNTOBINSQ as dependent variable*



6 Analysis

In this chapter the empirical results of the three equations as well as the Correlation between the key variables will be analyzed and interpreted.

6.1 Descriptive statistics and Pearson correlations

Table 2.1 provides the descriptive statistics of the variables used in the three equations. TRANSPARENCY provides a mean of 94.61, which indicates that the average company of the sample provides a CSR transparency of 95%. This percentage is relatively high and thus, it can be concluded that European companies provide a high level of CSR transparency. However, this value cannot be compared with prior studies, due to the difference in the measurement method. For example, Deegan et al. (2000) measured the level of CSR transparency based on the number of sentences provided to the related incident.

Furthermore, SP shows a mean of 61.104, which indicates that the average company of the sample has a social performance of 61%. Consequently, the level of social performance is expandable and demands for further investments in social responsible business strategies. The mean of 61.104 cannot be compared with prior studies because of difference in the measurement method. As stated in chapter 3, there were different sources used such as rating agencies (KLD, ASSET4) or interviews. Moreover, as demonstrated by the study of Ioannou and Serafeim (2012), there were different indicators used for determining the social performance, even when relying on the same databases. Ioannou and Serafeim used ASSET4, but they used environmental and social metrics to construct their social performance index. Hence, the mean value should be interpreted with caution because the author is not able to compare the value with other groups of countries (e.g. Asia, USA).

Moreover, LNTOBINSQ has a mean of -0.081. However, this result cannot be compared with prior research based on the fact, that prior research has not log-transformed the variable.



6.2 Social incidents' impact on company's level of CSR transparency and social performance

The first and second model is significant at a one percent level, but just explains (1) 27.9% and (2) 27.9% of the variance of the dependent variable. Thus, there are more relevant independent variables explaining the level of transparency, which needs to be considered in future analysis.

Moreover, as table 2.3 indicates, the coefficient of LNASSETS has a significant impact on company's level of CSR transparency. The result is consistent with prior research (Patten, 1992; O'Dwyer; Aerts and Comier, 2009), who state that company's size has an impact on the level of CSR transparency. However, the result could be biased because of the detected heteroskedasticity. Hence, the result should be interpreted with caution. Furthermore, the remaining coefficients of the independent variables are insignificant for the overall sample at any conventional level. For example, the variable INCIDENTS is insignificant (0.935 and 0.305) in the equation 1 as well as in 2 because the p-value was higher than 0.10. Thus, there is a low likelihood that the relationship between the dependent and independent variables is caused by something other than a random chance (Hair et al., 2010, p. 193).⁷

Consequently, the thesis cannot support or reject prior studies (Patten, 1992; Brown and Deegan, 1998; Deegan et al., 2000), which examined a positive relationship between the level of disclosure and the occurrence of incidents. Prior research substantiates the positive relationship with the application of the legitimacy theory and media agenda setting theory. Media agenda setting theory argues, that the media can be particularly effective for driving public's concern about the social performance of companies (Ader, 1995). Furthermore, connecting the background with the legitimacy theory it can be assumed that companies attempt to legitimate their operations by providing a higher level of information and CSR transparency

⁷ Additionally, the author examined country-specific and industry-specific differences to investigate whether there is a significance. However, there were no significant differences.



about business operations (Deegan et al., 2000) and by improving its social performances (Werre, 2003). Due to the fact, that the author examined no relationship between incidents and the level of CSR transparency and social performance, the author cannot support or reject the aforementioned theories.

There are several reasons which could have influenced a different result toward prior research and could constitute a limitation of the thesis. Firstly, social incidents were measured quantitatively, but there was no distinction between the strength of the incurred social incident. This implies, that the impact of a social incident such as the disclosure of child labor is considered equally as a building collapse due to unsafe working conditions. For example, Deegan et al. (2000) examined the Exxon Valdez incident, Union Carbide incident, Kirki Oil spill, Moura Mine incident and Iron Baron Oil spill but did not differ in their strengths as well. However, these incidents could be graded as “disasters”, due to their strong repercussions on the environment. On the contrary, the thesis combined “weak” incidents and “strong” incidents. Hence, it could be assumed that a weak incident has a lower impact on the CSR transparency than a strong incident. Thus, the integration of these different strengths of incidents could have decreased the level of significance. Furthermore, another explanation for the result of equation could derive from the fact, that the author focused on the impact of social incidents on a company’s overall CSR transparency. The social aspect of the CSR transparency variable is just one dimension next to environmental or ethical aspects. Hence, the weight of social aspects within the CSR transparency variable could be relatively low.

6.3 Impact of social performance on financial performance

Table 2.8 presents the overall quality of the regression model. The relatively low R^2 (0.271) shows that just 27.1% of variance of the dependent variable of the regression model can be explained. Hence, the model has little explanatory power which indicates that there are further variables which explain the dependent variable. This is consistent with the findings of Waddock and Graves (1997), who calculated an adjusted R^2 of 0.27 (with social performance as independent variable



and ROA as dependent variable). However, due to the sample size, the equation is statistical significant.

Moreover, Table 2.9 indicates that there is a relationship at a 10 % significance level between social performance and financial performance. The standardized coefficient beta (0.163) indicates that the implementation of a higher social performance has a positive impact on financial performance. Hence, the hypothesis 3 is supported by the regression model, which would be consistent with prior research (McGuire et al., 1998; O'Bannon and Preston 1993; Waddock and Graves, 1997; Orlitzky et. al, 2003). Prior research linked this positive relationship to the stakeholder theory.

Prior research (Prahal and Hamel, 1994) have recognized that meeting stakeholder expectations in advance before they are becoming problematic, can result in positive financial outcomes (Waddock and Graves, 1997). Due to the increase in SRI and the discussion of responsible social business activities (Sparkes and Cowton, 2004), could be assumed that stakeholder require an improvement in companies' social performance. As a consequence, aforementioned financial benefits could result due to stakeholder's satisfaction. A further indicator for stakeholders' power could be found in the composition of the social performance variable (Waddock and Graves, 1997). The social performance index in the thesis is composed by customer, employees and community indexes. The heavier weights (or the majority of indicators) of these indexes is closely linked to important and powerful stakeholders. For example, workforce and human rights address the employees index, community issues address the community index and the product responsibility index represents customer's satisfaction. It could be assumed that less directly stakeholder-related categories (e.g. of involvement in nuclear contracting) receive substantial less weight. This circumstance leads to the argument, that social performance, stakeholder concerns and financial performance are closely linked and hence, that stakeholders have a great impact on the relationship between social and financial performance. Another possibility for the positive financial effects could be, that managers are aware about positive effects of improved external reputations (Waddock and Graves, 1997), as presented in chapter 3.4.



Nevertheless, the partial limitation of the measurement of social performance should be considered. Characterizations such as corporate image and employer branding could be hard to capture. Hence, when interpreting the results, it should bear in mind that the social performance index of a company may not be fully grasped.

However, the value of 0.163 of the standardized coefficients beta is lower in comparison to the standardized coefficients beta of LNASSETS (-0.443), LEV (-0.215) and QR (0.193). Due to the fact that the values of standardized betas can be compared, it can be concluded that social performance has a lower relative importance for the model than for example size (LNASSETS) with -0.443. The negative values of LNASSETS and LEV indicate, that the bigger the company is and the more it is financing its capital due to debts, the lower its financial performance. However, the result could be biased because of the detected heteroskedasticity.

Turning the attention back to the relative importance of social performance in the regression model, the model points towards a discussion of the relevance of social performance. The value of social performance (0.163) is in comparison smaller than the value of e.g. leverage (-0.215). According to the results, it would be more profitable for companies to improve its financing situation (leverage) than improving its social performance. However, that is not surprising, because one should expect that the improvement of an indicator which is closely related to financial performance yield to a higher increase of Tobin's q than in comparison to social performance. Based on the standardized coefficient beta of 0.163, the relevance of social performance can be assessed as relatively high for financial performance. However, regarding to the improvable mean value of 61%, there is room for further improvements in the social performance of companies which are listed in European Union Member States.

As presented in the previous chapters, the concept of social performance addresses important issues regarding social practices within businesses. An improvement of



social performances could have a positive impact on the company's environment. Hence, it should be considered to give companies further incentives to implement improved social practices. Incentives can be found by looking to regulation processes of environmental impacts of companies within the European Union. Due to strong price incentives achieved by taxes, the introduction of environmental policies can be seen as a powerful determinant of corporate investments in environmental performances (Semenova et al., 2010). Thus, a possibility to highlight the importance of social responsible business strategies and to provide further incentives for companies to implement such strategies, could be the introduction of policies by the EU. These policies could include for example fees which are addressing poor working conditions or child labor, as well as penalties when there has been a violation of consumer privacy.



7 Conclusion

In this chapter, the author presents his conclusions based on previous chapters. Moreover, the author will state limitations and contributions of the research.

The author examined the impact of social incidents on CSR transparency and social performance, as well as the impact of social performance on financial performance on companies, which are listed in European Union Member States. The thesis is motivated by the theoretically (Grewatsch and Kleindienst, 2015) and practical (Kach and Bode, 2016) discussion of an implementation of CSR strategies in corporate business strategies. The author assumed a positive relationship between social incidents and CSR transparency and social incidents and social performance. This is based on the argument that companies try to legitimate their operations by providing more information regarding the specific incident and improve their social performance to meet society's expectations (Patten, 1992; Brown and Deegan, 1998; Deegan et al., 2000). Furthermore, the author argues that there is a positive relationship between social performance and financial performance. This is based on the assumption, that social performance can be seen as a strategic instrument that enables companies to satisfy stakeholder requirements (Perrini et al. 2007; Lindgreen et al. 2009; Yang and Rivers 2009). Hence, it could be concluded that a satisfaction of stakeholder groups brings along some financial benefits due to the power of the stakeholders (Hoeffler et al., 2010; Agudo-Valiente et al., 2013).

The investigation of the descriptive statistics of the variables shows, that companies which are listed in the European Union provide in general a high level of CSR transparency (95 %). Though, the average social performance is improvable (61%).

For the first and second research question, the empirical findings of the overall sample are statistically insignificant at any conventional level. Additionally, the author examined no significant country-specific or industry-specific differences when conducting the test. This means, that after the occurrence of incidents, the company did not provide a significantly higher level of CSR transparency or improved significantly their social performance. These results disagree with prior



research, which examined a higher level of CSR transparency after the occurrence of incidents (Patten, 1992; Brown and Deegan, 1998; Deegan et al., 2000). However, the author concluded that these discrepancies could derive from the limitations of the research, regarding to measurement methods of the variables.

The empirical findings of the third research question showed a significant positive relationship between social performance and financial performance. This result is in line with prior research (McGuire et al., 1998; O'Bannon and Preston 1993; Waddock and Graves, 1997; Orlitzky et. al, 2003) which examined that social performance has a positive impact on financial performance. Again, the author could not find any country-specific or industry-specific differences. However, the results of the thesis also indicate that social performance has a noticeable importance for the model. Therefore, the result could be a supportive argument for companies to invest more resources in CSR related strategies, also from a financial perspective, besides being philanthropic. However, the low average social performance of the sample size (61%) could be a further argument for the demand of governmental inventions to improve corporate impacts on the society. Thus, the results support government interventions of the European Union for giving further financial incentives to invest in social strategies. By taking environmental policies such as emission taxes or environmental fees as an example, the author discussed the introduction of social policies as a possible tool for managing corporates impact on the society. Considering the increasing demand for SRI and the positive impact on the financial performance, an investment in social strategies could be proved as a benefitting decision for a company.

Finally, this research could be extended in several ways. One limitation of the present research was the fact that the author did not distinguish between the strengths of social incidents. These shortcomings could be eliminated. It would be interesting to conduct research with similar incidents and to check for differences between countries and industries. Moreover, researchers could examine a country or regional comparison with a greater dataset to analyze in which areas of the world CSR strategies are implemented in a way which yields to an increase of financial performance. Following this investigation, it would be interesting to examine via a



qualitative research method the reasons (e.g. policy, culture, norms), which inhibit or facilitate the diffusion process of CSR practices in the best performing countries and/or industries.



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