

What determines outsiders' perception of how socially responsible a company is?

Evidence from Denmark 1998-2003

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Research question

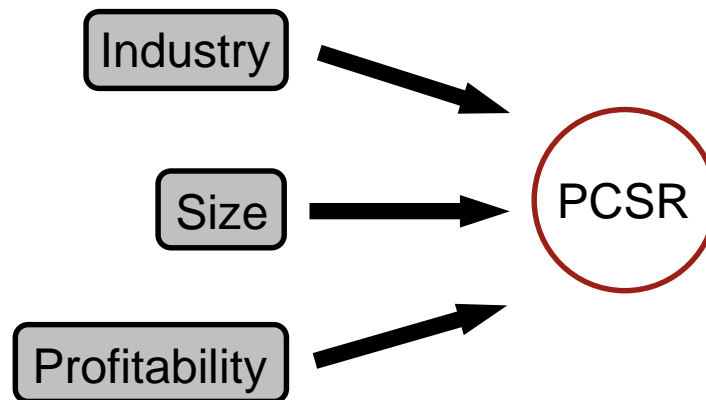
- » Which factors determine if a company is perceived by others to be socially responsible or not?
 - » We refer to our dependent variable as
Perceived Corporate Social Responsibility – PCSR
 - » We explore the link between PCSR and firm-level characteristics

Data sources

- » Image survey of Danish companies
 - » 929 executives ranked companies according to *perceived* performance in 9 categories:
 - » **social responsibility**
 - » financial strength
 - » ability to innovate
 - » social importance
 - » communication skills
 - » quality/price ratio
 - » quality of management
 - » product quality
 - » employee satisfaction
 - » The survey covers years 1998-2003
 - » Image scores for 263 companies were included

Determinants of perceived Corporate Social Responsibility

- » We took the survey scores for **perceived social responsibility** – our dependent variable
- » ...and analysed these against three variables:



- » Using the regression model:

$$PSCR_{i,t} = \beta_0 + ROA_{i,t-1} + ROA(sd)_{i,t} + CapStruc_{i,t} + \log Empl_{i,t} + year_Dummies_t + Industry_Dummies + e_{i,t}$$

Hypothesis 1

Perceived CSR and Industry

- » Companies with a negative impact on the environment face more pressure to undertake CSR initiatives
 - » agriculture, food manufacturing, and transportation
- » Highly regulated industries experience comparatively more pressure to comply with existing laws and norms (Luoma and Goodstein, 1999)
 - » pharmaceuticals and transportation
- » Industries servicing end-consumers are likely to put more emphasis on social responsibility
 - » consumer-oriented industries
- » **Hypothesis 1:**
 - » *“Industries that are prone to public scrutiny such as agriculture, food, transportation, pharmaceuticals and consumer goods are likely to have a high PCSR score”*

Hypothesis 2

Perceived CSR and size

- » Large corporations face more pressure to comply with existing norms and laws
- » Larger firms are accountable to more stakeholders and disclose more information about CSR initiatives (Trotman and Bradley, 1981)
- » Larger companies' CSR programmes have a wider impact than the CSR initiatives of smaller companies
- » **Hypothesis 2:**
 - » *"Large firms are more likely to be perceived as socially responsible than small firms"*

Hypothesis 3

Perceived CSR and profitability

- » The capital rationing argument
 - » Profitable firms find it easier to afford CSR and to defend CSR initiatives to their shareholders
- » The incentive argument
 - » Profitable firms expect CSR to be a more profitable means to build a long term reputation (Margolis and Walsh, 2000)
- » **Hypothesis 3**
 - » *“Past profitability is likely to have a positive impact on the future levels of CSR, which should be reflected in a high PCSR score”*

Findings for hypothesis 1

Industry and PCSR

- » Companies in the pharmaceutical and food industries have high PCSR scores supporting the hypothesis
- » Companies in transport industries and the consumer sector have low PCSR scores contradicting the hypothesis

	<i>Coef.</i>	<i>Std.Err</i>
ROA (lag)	42.77***	11.14
ROA (sd)	100.93***	15.89
Capital Structure	-0.06	0.06
Log of No. Empl.	6.21***	0.67
1999	6.63	4.59
2000	24.65***	4.64
2001	16.50***	4.48
2002	-17.97***	4.54
Agriculture and foodstuffs	27.45***	6.30
Consumer goods	-30.85***	7.26
Transport and communication	-13.89**	5.90
Pharmaceuticals	58.49***	5.11
_cons	-142.47***	4.87

Findings for hypothesis 2

Size and PCSR

- » Firm size has a positive estimated effect on perceived CSR in support of the hypothesis

	<i>Coef.</i>	<i>Std.Err</i>
ROA (lag)	42.77***	11.14
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Findings for hypothesis 3

Profitability and PCSR

- » Profitability has a positive estimated effect on perceived CSR also in support of the hypothesis

	<i>Coef.</i>	<i>Std.Err</i>
ROA (lag)	42.77***	11.14
ROA (sd)	100.93***	15.89
Capital Structure	-0.06	0.06
Log of No. Empl.	6.21***	0.67
1999	6.63	4.59
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Perceived CSR and general image

- » There is a powerful correlation (0,743) between the overall image score and the PCSR score
- » This may suggest that
 - » respondents tend not to distinguish between the social responsibility performance and overall image of companies,
 - » PCSR holds significant sway over the overall image of companies, or
 - » that the variables affecting general image and PSCR are to a large extent identical

Overall conclusions

- » The degree to which a company is perceived to be socially responsible depends on its size, industry, and past profitability
 - » This is in line with previous literature on CSR
- » Perceived CSR overlaps to a very large extent with general corporate image
 - » In short, a high general corporate image score is correlated with a high score for perceived CSR performance.

Future research...

- » What is the relative importance of PCSR for general image vis a vis other performance indicators?
- » Which other factors than size, industry and profitability decide how socially responsible firms are perceived to be?
- » What is the link between the actual CSR performance of companies and their reputation for social responsibility?
 - » Do realities and perceptions differ?
 - » Are the right companies rewarded?

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Presentation available @ www.copenhagencentre.org

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