

Does Corporate Environmental and Social Responsibility Matter for Firm Performance in the UK?

Submitted by

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Abstract

In this thesis first, I investigate the link between firms' environmental and social disclosures (ESD) and their profitability, as well as establish the direction of causality between the two. Second, I examine the association between ESD with firms' market value, employee productivity and carbon eco-efficiency respectively. Finally, I examine the relations among firms' CSR related board attributes, CSR strategy and their environmental and social performance (ESP).

The first empirical chapter shows that firms with higher profitability tend to provide more ESD, which is consistent with the accounting- and economics-based arguments that ESD involve a real as well as an opportunity cost that more profitable firms with higher slack resources are better able to afford.

The results regarding market value analysis show that overall ESD, in particular social disclosures matter to investors. Investors appear to be placing higher values on firms seen to be behaving in a socially responsible manner. Presumably, more responsible behaviour in the social arena reflected in higher disclosure helps to mitigate the information asymmetry, and hence the perceived social risk of the firm. Investors thus place higher values on such firms. The evidence on the link between firms' ESD and their ESP measures supports this explanation. Specifically, I find that more social (environmental) disclosure in prior year reflects better social (environmental) performance as captured by higher employee productivity (more carbon eco-efficiency) in the current year.

The results of the final empirical chapter show that boards having certain CSR-conducive attributes, particularly independent directors, women directors, and directors with financial expertise on the audit committee, are more likely to develop a multi-pronged CSR strategy which in turn translates into superior environmental and social performance. Furthermore, I find that firms with better ESP tend to further strengthen their board CSR orientation. In other words, the analysis suggests the presence of a positive and cyclical link between CSR orientation, firm CSR strategy, and firm environmental and social performance.

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