CORPORATE SOCIAL RESPONSIBILITY AND STOCK PRICES: A STUDY ON THE ITALIAN MARKET

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Abstract

This study investigates the impact of Corporate Social Performance on stock prices of Italian listed companies. The main stream of literature focuses on the relation between CSR and financial performance, showing contradictory results that still feed a debate, which has not yet reached a unanimous and widely shared position. Concerning the selection of the measure of performance, we chose stock prices as a proxy for financial performance, in order to measure the perception and reaction of financial markets to the companies' socially responsible behaviors. Using different social performance indicators concerning environment, community and employment activities, we found evidence that a good social performance has a negative influence on stock prices in the Italian Stock Exchange Market. This phenomenon is particularly evident if the environmental strategies of the Italian listed companies are considered. Hence, the Italian investors perceive these practices as avoidable expenses reducing shareholders' income and companies' value and recognize a negative market premium, in terms of lower stock prices, to socially responsible enterprises. This evidence is consistent with the peculiarities of the Italian capitalism structure, which, because of its backwardness in CSR topics and related issues, seems to be not yet mature enough to evaluate appropriately the value of these policies.

Keywords: Corporate Social Responsibility, Corporate Social Performance, Stock Price, Employees, Community, Environment

JEL Code: A13, M14

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1 Introduction

This study aims at contributing to the increasing discussion in the literature about the relation of Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP) of listed companies, trying to answer one of the main questions of the scientific debate: does Corporate Social Responsibility (or, in a broad sense, Corporate Social Performance – CSP) affect somehow Corporate Financial Performance? The focus in on the Italian context which is characterized by a strong blockholders' orientation and relatively scarce attention to companies' socially responsible behaviors. We assume that Italian financial market does not award socially responsible listed companies and the empirical findings support this hypothesis.

The increasing relevance of CSR issues is witnessed by the pressure arising from social community and environmental constraints; socially responsible behaviors improve companies' image and strengthen their reliability: hence this element may affect somehow their financial performance even if there is a lack of suitable key performance indicators to measure it. In companies' perspective there is a big trade-off between higher costs (i.e. environmental and safety costs) and higher returns (better reputation and corporate image) concerning socially responsible behaviors.

The literature has not come to unique results yet, since empirical studies about the relationship between CSR and profitability have been mostly contradictory (Margolis & Walsh, 2003), showing negative (Aupperle & Van Pham, 1989; Friedman, 1962; Freedman and Jaggi, 1982; Waddock and Graves, 1997; Jensen, 2002; Marcoux, 2000; Sternberg, 2000; Preston and O'Bannon, 1997; Aupperle *et al.,* 1985; Ullman, 1985) and positive (Alexander and Buchholz, 1982; Moskowitz, 1972) correlation between the two variables. Besides, even when it is possible to establish a link between CSR and financial performance, it is not clear what is the cause-effect linkage, thus making necessary additional investigation (Preston and O'Bannon, 1997; Waddock & Graves, 1997).

Considering the Italian context, the scientific knowledge shows remarkable areas of potential improvements/completion, since a limited evidence

about the relation between CSR and financial performance may be observed. In this perspective, the topic turns out to be relevant in order to try to fill up this literature gap. Italian scenario is particularly interesting because CSR awareness is a relative new issue compared to other countries, both in the (communicated) priorities of the firms and in the literature's debate. "*Italian firms have only recently shift from implicit to more explicit CSR and that could affect in a relevant way the results of this work*" (Matten and Moon, 2008).

Since the reporting activities on CSR vary across country, due to different culture, institutional environments and stakeholders expectations, also in the Italian market the role of socially responsible companies must be analyzed taking into account the characteristics of the corporate governance system and the capitalism structure (Fiori et al. 2004; di Donato, 2005). The high number of small-medium-sized family companies is traditionally one of the most known features of Italian capitalism; moreover, publicly held companies are quite absent, most companies are closely held, the market for corporate control seems to be quite ineffective and a few blockholders, mainly represented by entrepreneurial families, play a decisive role in the economic system's performance.

The focus on CSR topics increases with the increasing relevance of the different classes of stakeholders such as, among the others, institutional investors (Graves and Waddock, 1994). The Italian market is not characterized by institutional investors activity due to an ineffective development of financial market where social responsibility is not a top priority of Italian managers. In Italy, primarily emphasizing the blockholders' role focused on short-term profitability, we expect a negative relationship between CSR policies and any kind of performance because socially responsible behaviors are perceived as avoidable expenses reducing companies' profits (di Donato and Izzo, 2012).

Thus, the paper provides empirical evidence concerning the impact of CSP on stock prices of Italian listed companies. According to some authors (Matten and Moon, 2008; Kolk, 2005; Brammer et al, 2006*)*, the attention paid by European firms to CSR issues is gaining a new momentum, even if until recently they were not so developed and widespread, together with management education and firms' tools.

While research has provided rich analysis of the relation between CSP and CFP in the American and Anglo-Saxon scenario, and now it's moving toward Chinese and Indian background, little attention has been dedicated to the "Old Europe". Our paper provides a contribution on this context.

We assume that Italian financial market does not award socially responsible listed companies showing a negative correlation between stock prices and social performance. The empirical findings support this hypothesis.

We chose the stock prices as a significant proxy for performance in order to test the market reaction to CSP. Our assumption is consistent with Bowman's position (1973) stating that "the market's perception of corporate responsibility may affect stock prices and, therefore, investors returns (where both dividends as well as capital gains are considered as included in total return). In addition to this direct effect, the price of stock will have subsequent effects on the cost of capital to the growing company and, ultimately, on its earnings". This dated assumption related to the US market in 1973 fits well the actual Italian context due to the Italian backwardness in CSR topics and related issues.

Our results provide a contribution to the international debate on the relationship between CSP-CFP in the Italian context and the impact on stock prices. Moreover, these outcomes could be useful both for financial statement users in dealing with socially responsible companies and for policy makers in defining corporate social responsibility incentives.

The paper is structured as follows: section 2 examines related literature on CSR, Stakeholders Theory, the impact of CSR on companies' performance and presents our hypotheses. Section 3 describes the methodology for defining CSR score and testing the hypotheses. Section 4 shows and discusses the results and, finally, section 5 presents the conclusions.

2 Theoretical background

2.1 Corporate social responsibility and stakeholder theory

Among the most relevant issues of CSR, two main questions arise concerning the area of company's responsibilities: "*What is the company responsible for*?" or "*Whom is the company responsible to?*". According to the literature, there are two main answers: (a) the company is responsible only towards its shareholders and for this reason, its supreme goal is to increase its economic value; (b) the responsibility of business is the maximization of stakeholders value and managers have to satisfy several groups who have some interests or stakes in a company and can influence its outcome. According to Freeman (1984), in fact, a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's goal".

Concerning the answer (a), traditional finance theory claims that maximization of shareholders value has to be the first goal of the management (Ross, 1973; Jensen and Meckling, 1976). In this sense, the Shareholder Theory states that the social responsibility of the company should be seen only through the lens of the profit maximization ethic (Lazonick and O'Sullivan, 2000).

According to many authors (Grant, 1991; Kotter and Heskett, 1992; Donaldson and Preston, 1995;

Handy, 1997; Delves, 2003; among others), shareholders approach is not satisfying enough in order to explain companies' behaviors, because shareholders maximization value sometimes leads to short term profitability decisions rather than long term profitability or interests' alignment mechanisms, thus causing economic instability or insecurity. The Stakeholder Theory and its emphasis on the role of different stakeholders in the value creation path, seems to bridge this gap. According to this theory, company's responsibility is multiple and managers have to satisfy different requirements of several stakeholders (Freeman, 1984; Weeler *et al.,* 2006, Freeman and Velamuri, 2006). By addressing and balancing the claims of multiple stakeholders, the management can increase company's efficiency and create value. In this case, CSR is perceived as a strategic tool in order to satisfy stakeholders expectations.

As Blowfield and Murray (2008) underline, Freeman didn't set the Stakeholder Theory against the Shareholder one. He adopted an instrumental approach to Stakeholder Theory, stating that companies choose their primary stakeholders on the ground of their potential role in jeopardizing the firm's survival (see also, Post et al., 2002; Phillips, 2003; Husted and Salazar, 2006).

Concluding, there is no intrinsic opposition between the Shareholder Theory and the Stakeholder Theory concerning CSR issues, value creation and company's performance. Both, in fact, can be considered a tool to increase the firm's performance (financial, operational, social, etc.) and finally, to create value.

2.2 Corporate social responsibility and firm performance

Considering the trade-off between CSR costs and returns and according to the profit-maximizing theory (McWilliams and Siegel, 2000; Bagnoli and Watts, 2003), many authors have focused their attention on the existence of an impact of socially responsible behaviours on financial performance (Griffin and Mahon, 1997; Dowell, Hart and Yeung, 2000; McWilliams and Siegel, 2000; Orlitzky, Schmidt and Rynes, 2003).

According to Margolis and Walsh (2003), 122 studies published between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. The effects reported in those studies are ambiguous (e.g., Waddock and Graves, 1997; Guenster et al., 2006; Schuler and Cording, 2006), but, with some approximation, this debate consists of three principal strands.

A first group of authors states the existence of a positive correlation between CSR and financial performance (Soloman and Hansen, 1985; Pava and Krausz, 1996; Preston and O'Bannon, 1997; Ruf et al., 2001). Companies highly focused on CSR matters may obtain greater returns on their investments, i.e. in terms of image and reputation (Fombrun et al., 2000; Schnietz and Epstein, 2005) or in terms of positive impact on their cost of debt (Izzo and Magnanelli, 2012) and, consequently, higher financial results, due to the fact that the benefits related to CSR activities are greater than the related costs (Izzo, 2014). In this sense, according to Soloman and Hansen (1985) the costs of having a high level of investments in CSR are definitely lower than the potential benefits that a responsible company can seize thanks to a better relationship with employees, good morale and improvements in productivity rates. Stanwick and Stanwick (1998) and Verschoor (1998) underline that a good CSR behavior simplifies the relationship with stakeholders in general and Ruf et al. (2001) define the period of years (3) positively affected by changes in CSR, studying the growth in sales and the return on sales.

A second group of authors underlines that there is no relationship between CSR and companies performance (McWilliams and Siegel, 2000; Anderson and Frankle, 1980; Aupperle et al. 1985; Elsayed and Paton, 2005). Statman (2000), for example, justifies the neutral relationship with the financial market's inability to put a monetary value on companies' responsible behaviors. Alternatively, it might not be possible for current market models to measure effectively the impact of CSP on firm and portfolio performances (Derwall et al. 2005).

The third strand supports the existence of a negative relationship between CSR and performance and it is focused on empirical studies and contributions that refer to managerial opportunism hypotheses (Freedman and Jaggi, 1982; Waddock and Graves, 1997; Marcoux, 2000; Sternberg, 2000). Preston and O'Bannon (1997) point out that managers can reduce investments in CSR in order to increase short term profitability and their personal compensation as well and Sternberg (2000) concludes that Stakeholder Theory "effectively destroys business accountability … because a business that is accountable to all, is actually accountable to none".

According to Ullmann (1985) the results of these studies are only "data in search of a theory", underlying the difficulty in defining the nature of relationship between CSR and firm performance. In particular, the different findings could be attributed to both the wide array of measures used in empirical studies on CSR and the variety of firm performance's definitions but, in conclusion, the debate remains still open.

Starting from this point, one of the first issues is to define the performance measure. As occurs with CSR, in fact, a wide variety of definitions of firm performance have been proposed in the literature (Barney, 2002). Trying to restrict the possibilities and referring to the measures traditionally used to analyse the relationship between CSR an firm performance,

we could refer alternatively to accounting measures or market measures. Given the cited debate on CSR and the Stakeholder Theory, and assuming that socially responsible decisions can create or destroy shareholder value, market measures of firm performance are assumed more suitable in this context. In fact, in our model, we focus on how socially responsible activities affect the market value of listed firms, measured by their stock price.

2.3 Hypothesis

Consistent with Bowman (1973) we analyzed CFP in terms of stock price because CSR can affect companies' performance either in terms of risk reduction (increase) or in terms of higher (lower) value. In particular, we assumed that the Italian market does not award socially responsible listed companies highlighting a negative correlation between social performance and stock prices. We based this assumption on the fact that any relation existing between CSR and performance depends on the characteristics of corporate governance, on the cultural and historical background and on the role of different stakeholders (Graves and Waddock, 1994). In other terms the relation between social and financial performance is affected by different factors such as institutional commitment on social topics, market attention to social problems, investors' trust on CSR policies disclosure and the relevance attributed to the different categories of stakeholders.

In the Italian market, characterized by a strong blockholders' leadership with a short term orientation and a limited role of others stakeholders, the disclosure related to CSR practices negatively affects stock prices since socially responsible behaviors are perceived as avoidable costs reducing-value and short term profits.

Accordingly, we formulate the first hypothesis as follows:

HP1: In the Italian financial market, social performance negatively affects stock prices of listed companies.

Since CSP as a unique variable is expected to have a negative impact on stock prices, there could be some compensation effects related to the specific social performance indicators composing the unique variable. This can occur because, investors could be more interested in some particular social activities, and their decisions could be affected only by some kind of strategies implemented by the firms. According to Brammer et al. (2006) we separated the CSR variable into three parameters: employees, environment and community, assumed to be the main perspectives of CSR policies. This is also consistent with Derwall et al. (2005) underlining that the contribution of social or environmental screening policies to investment returns depends on the financial markets' ability to evaluate the financial consequences of corporate social responsibility into stock prices. We assume that in Italy any kind of socially responsible policy is perceived as an increase of costs and profit reduction with a negative effect on stock price of listed companies. This depends again on the powerless stakeholders' role in this context and on the poor value put down to socially responsible behaviors.

This assessment leads to the second hypothesis:

HP2: In the Italian market, all the different aspects composing CSR, such as employees, environment and community, negatively affect stock prices of listed companies.

The empirical evidence does not fully confirm this second hypothesis. In fact, we found that only the social environmental performance has a negative impact on stock prices in the Italian market. This evidence is not consistent with the main literature attributing a crucial role to environmental issues. For example Feldman et al. (1997) focus only on the environmental aspects of CSR and suggest that companies that are able to improve their environmental performance can reduce their risk and raise their stock prices by up to 5%. Contrary to these findings, we found that in the Italian financial market the disclosure on CSR environmental policies has a negative impact on stock prices.

The following paragraph will explain the methodology used for the study.

3 Methodology

3.1 Sample and methodology of the analysis

Our analysis is based on a sample of 32 Italian companies listed on the Milan Stock Exchange (MSE) that regularly draw up voluntary corporate social responsibility reports (e.g. sustainability reports, environmental reports, environmental and social reports or corporate social responsibility reports) covering the period 2004-2008. According to Gray *et al.* (1995), we decided to analyze these different documents not focusing on a single reporting format. We made a first screening of the available documents in order to verify the comparability of the information regardless the official format used by the firm.

The analysis does not include banks and insurance companies even if they realize CSR reports because, due to their specific core business and risk profile, they would have altered the average results. For these firms, in fact, the environmental variables do not have much importance compared to other sectors and the most important variable is the customer relationship. Moreover, we only considered companies drawing up CSR reports for the entire temporal range analyzed in order to guarantee homogeneity to our analysis. The sample consists of 32 listed firms operating in different industries for a five years time period (160 firms-observations overall). The financial data were collected from Datastream database and "Il Sole 24 ore" (an important Italian financial

newspapers). Information on CSR and the official documents were collected from companies' websites or on the Borsa Italiana (Milan Stock Exchange) website.

The analysis is performed through the following steps.

Firstly, according to the Brammer et al. (2006) model, we chose three CSR parameters (related to employees, environment and community) and ranked them according to the sample of the companies. Then, we tested the first Hypothesis, with a regression model ("Model 1"), where stock market price represents the dependent variable and CSR is the independent one as unique variable calculated as weighted average of the three previous parameters.

Lastly, we tested the second Hypothesis, with a regression model ("Model 2"), in which the previous unique CSR variable is broken-down into three different parameters: employees, environment and community. In both cases we considered some controlling variables affecting CSR and stock price.

The models assume that capital markets are semi-strong efficient (Fama, 1970). This means that publicly available information about the perceived value of companies' assets will be reflected, on average, in the company's market price. Semi-strong efficiency, in particular, implies that "*if firms engage socially responsible activities, in a public way, that current and potential equity holders will be aware of both the nature of these activities and their impact on the present value of a firm's future cash flows, and will, on average, adjust their evaluation of a firm's equities*" (Mackey et al. 2007). Semi-strong efficiency suggests that when a firm publicly pursues socially responsible activities, the market is able to recognize them and such information is embedded, on average, into the stock prices.

3.2 Variables

3.2.1 Dependent variable: corporate financial performance

CFP can be empirically analyzed with different approaches and using multiple proxy variables. Literature examining the link between CSR and CFP uses both accounting-based indicators such as return on assets, return on sales or return on equity (Orlitzky et al., 2003; Griffin and Mahon, 1997) and market based financial performance measures (Brammer et al., 2006). The latter choice is justified assuming the central role of investors, upon whom accounting-based measures have only an indirect impact. In this sense, the stock return is frequently used as a measure of company's financial performance (Anderson and Frankle, 1980; Jacobson, 1987; Klassen and McLaughlin, 1996; Ziegler et al., 2007). According to these authors, the market assessment of firm value and its expected performance are reflected in the equity value of the company and new public information is continually assessed, valued, and reflected in the stock price. Moreover, accounting-based measures are often criticized because they can be subject to bias from managerial manipulation and differences in accounting estimates (Branch, 1983; Brilloff, 1976) and they are not appropriate for cross industry comparison (Griffin and Mahon, 1997).

In this study we used a market-based financial performance measure in order to overcome the previous limitations and because these kinds of proxies represent investors' evaluation of the company's ability to generate future economic earnings rather than past results (McGuire et al., 1988). In particular, we decided to test the relation between CSR and company performance using stock prices, our dependent variable, consistently with Bowman (1973) who claims that "the market's perception of corporate responsibility may affect the price of the stock and, therefore, the investor return". The time period of the analysis is 2004-2008. Moreover, CSR reports at time t are related to stock price at time t+1, this being consistent with the evidence that every year companies produce these reports in April or later, so that the stock prices take time to incorporate the new information and produce some effects.

3.2.2 Independent variables

The most relevant problem concerning the CSR evaluation is that managers need to justify the consequent investments and the allocation of scarce resources in that area. Obviously, accurate measures of corporate social responsibility outcomes are required but the lack of a clear set of indicators makes the debate on CSR controversial and still a contradictory issue (Friedman, 1970; Freeman, 1984; Jones, 1995). Many studies identify and rank Corporate Social Responsibility characteristics and results by grading its policies and performance (e.g. firm-level data provided by Kinder, Lydenberg, Domini and Co. – KLD), or by surveying how the firm's activities and efforts are perceived (Fortune's Best 100 Companies to work for in America) or by deducting such elements from companies' inclusion (or exclusion) in the portfolio of socially responsible investment (SRI) funds (as, for example, Calvert Social Investment Fund or Domini Social Index Trust).

We decided to assess CSR practices according to Brammer et al. (2006) model, mainly for two reasons: (a) there is a lack of such CSR ranking database for Italian listed companies; (b) this model seems suitable in order to monitor and measure the main requirements of Italian stakeholders related to socially responsible firms.

We considered three main parameters composing CSR: (a) employees (CSR_EMPL); (b) environment (CSR_ENV) and (c) community (CSR_COMM); then, for the first hypothesis we built a unique CSR variable

(CSR) resulting from the weighted average of the three parameters, while for the second hypothesis we considered the three parameters as independent variables.

The CSR_EMPL is represented by five components:

1. the health and safety systems;
2. the systems for employees training and development;
3. the equal opportunities policies;
4. the systems for good employees relations;
5. the systems for job creation and security.

The CSR_ ENV consists of three components:

1. the quality of environmental policies;
2. the environmental management systems;
3. the environmental reporting.

Finally, the CSR_COMM is measured only by a single component, the community responsiveness. Then, we translated each of the text ratings into quantitative figures. We ranked each component with a scale scores from 0 to 3 or from 0 to 4. In particular:

(a) Employees score: 5 components (health and safety, training and development, equal opportunities policies, employee relations, systems for job creation and job security) each of them ranked from 0 to 3, yielding a total employees responsibility score of 15. Concerning the score, we attributed 0 if the company did not take into account the specific variable at all and 3 if it stated to take it into consideration with a satisfying description. Instead, we ranked the variables with 1 or 2 if their description was poor (e.g. if the company only named the variables without any or with an unclear description).

(b) Environmental score: 3 components (policies, management systems, and reporting), each ranked from 0 to 4, so that, the maximum score for this variable is 12. We attributed 0 if the company did not take into account the specific variable at all and 4 if it stated to take it into consideration with a satisfying description. Instead, we ranked the variables with 1, 2 or 3 depending on the broadness of the description (e.g. if the company only named it or there is a very poor description).

(c) Community score, ranked from 0 to 3. Also in this case, we attributed 0 if the company did not consider the component at all and 3 if it stated to take it into account with a satisfying description. Instead, we ranked the variables with 1 or 2 if the description was very poor.

After scoring each parameter for all the 32 firms over the five years period we aggregated all the weighted scores for each variable in building up the unique variable CSR for HP1. While, the independent variables used to test HP2 are:

(a) CSR_EMPL, given by the total score of the variables representing the CSR practices related to Employees divided by the number of its components (5);

(b) CSR_ENV, given by the total score of the variables representing the CSR practices related to Environment divided by the number of its components (3);

(c) CSR_COMM, given by the total score of the variables representing the CSR practices related to the Community divided by the number of its components (1).

3.2.3 Control variables

We included in our analysis several control variables related to the broad concept of financial and social performance. According to Ullman (1985), size and risk have a fundamental role in the relation between company's performance and CSP, in fact there is some evidence that smaller companies are less committed in socially responsible behaviors (Burke *et al.* 1986); besides, the management's risk tolerance influences the decisions in terms of CSR activities (Waddock and Graves, 1997), due to the effects that they can produce on the management reputation.

So, consistently with existing literature on companies' performance, the control variables are:

– Ln(TA), Ln of Total Assets, to control for size. It is expected to be positively correlated with stock price;

– Return on Equity (ROE), to control for profitability. It is expected to be positively correlated with stock price;

– Leverage (LEV), Net Debt/Equity ratio to control for financial pressure. It is expected to be negatively correlated with stock price;

– BETA, to control for operating risk. It is expected to be negatively correlated with stock price.

Moreover, we controlled for the industry and time effects. Industries were broken down according to Milan Stock Exchange classification codes and represented as dummy variables.

3.3 The regression models

In order to test our first hypothesis, the linear regression model is the following:

$$SP_{i,t} = \alpha + \beta_0 CSR_{i,t-1} + \beta_4 LEV_{i,t-1} + + \beta_5 ROE_{i,t-1} + \beta_6 BETA_{i,t-1} + + \beta_7 Ln(TA)_{i,t-1} + \varepsilon \quad (1)$$

Where SP is the stock price of the companies (dependent variable) in year t (where each year runs from January 1st); CSR is the composite CSR measure defined above; LEV is the Debt/Equity ratio; BETA is the coefficient representing the volatility compared to the market; ROE is the Return on Equity; Ln(TA) is the Ln of Total Assets; CSRUTILITY is the parameter representing the companies belonging to Utility industry (energy, oil, water..); CSRICT is the parameter representing the Information and

Communication Technology industry (High tech services, telecommunications); CSRGEN is the parameter representing the General industry (companies do not belonging to the previous ones); fixed effects are year effects.

Next, we run a second regression model, in order to test the second hypothesis, in which the single variable CSR is broken-down into the three components Employees (CSR_EMPL), Environment (CSR_ENV) and Community (CSR_COMM). The control variables are the same used in the previous regression.

The linear regression model used is the following:

$$SP_{i,t} = \alpha + \beta_0 CSR_EM_{i,t-1} + \beta_2 CSR_EN_{i,t-1} + \beta_3 CSR_COM_{i,t-1} + \beta_4 LEV_{i,t-1} + \\ + \beta_5 ROE_{i,t-1} + \beta_6 BETA_{i,t-1} + + \beta_7 Ln(TA)_{i,t-1} + \varepsilon \quad (2)$$

4 Empirical results

The results of regression analyses are reported below.

4.1 Hypothesis 1

The adjusted R^2 of the first regression model (MODEL 1) is 0.358 and Durbin-Watson index is high (1.919). In Table 1 the sign of the CSR coefficient is negative (t-statistic equal to -2.481) suggesting that Italian financial market recognizes a negative financial premium, in terms of lower stock prices, to socially responsible companies. This result is consistent with our expectations about the behaviors of Italian investors, who have a negative perception of socially responsible policies attributing them a negative value in terms of lower stock price. This negative perception is particularly evident in the Utility and ICT sectors where there is a significant and negative correlation between stock price and CSR disclosure (t-statistic equal to -3.294 and -2.978).

Table 1. Regression results (model 1)

Independent variables	Beta coefficients	t	Sig
Constant	-64.566	-5.824	0.000
Ln(TA)	5.822	7.468	0.000
BETA	-9.278	-3.453	0.001
LEV	-5.789	-3.915	0.000
ROE	0.054	1.028	0.306
CSR	-0.359	-2.481	0.015
CSRUTILITY	-0.502	-3.294	0.001
CSRICT	-0.623	-.2.978	0.004
CSRGEN	-0.217	-1.435	0.154
Adj. R square	*0.358*		
Durbin-Watson	*1.919*		

The other variables show the expected significant correlation with stock price. LEV (t-statistic equal to -3.915) and BETA (t-statistic equal to -3.453) are negatively and significantly correlated with stock price because the higher the financial pressure, the risk of insolvency and the operating risk, the lower the stock price. The size, Ln(TA), is positively and significantly correlated with stock price (t-statistic equal to 7.468), meaning that the bigger the firm the higher the stock price because the company is supposed to be “stable” and profitable. Finally, ROE, against our expectations, is not significantly correlated to stock price (t statistic equal to 1.028), and it seems that good profitability does not have any impact on stock price.

The variables of the model show a slight multicollinearity because the tolerance is not very high.

4.2 Hypothesis 2

The adjusted R^2 of the second regression model (MODEL 2) is 0.356 and Durbin-Watson index is quite high (1.719). In Table 2 the sign of the CSR_ENV coefficient is negative and significant (t-statistic equal to -2.353) suggesting that Italian financial market recognizes a negative financial premium, in terms of lower stock prices, to companies disclosing environmental policies. This result is consistent with our expectations about the behaviors of Italian investors, who perceive negatively the socially responsible strategies of the companies attributing them a negative value in terms of lower stock price. But, contrary to our assumptions, the market is not interested in socially responsible behaviors concerning the employees and the community, in fact the CSR_EMP and CSR_COM coefficient are not significant at all.

Table 2. Regression results (model 2)

Independent variables	Beta coefficients	T	Sig
Constant	-62.865	-5.725	0.000
Ln(TA)	5.931	7.507	0.000
BETA	-8.627	-3.258	0.001
LEV	-5.595	-3.661	0.000
ROE	0.050	0.940	0.349
CSR_ENV	-2.427	-2.353	0.020
CSR_COM	-1.006	-0.648	0.518
CSR_EM	0.878	0.512	0.610
Adj. R square	*0.356*		
Durbin-Watson	*1.719*		

The other variables show, as in the first regression, the expected significant correlation with stock price. LEV has a t-statistic equal to -3.661, BETA has a t-statistic equal to -3.258 and Ln(TA) has a t-statistic equal to 7.507. Once again, instead, ROE is not correlated at all to stock price.

5 Conclusions

Regarding the link between Corporate Social Responsibility and Corporate Financial Performance, the literature still shows contradictory results about the sign of the relation between these two variables; furthermore, the empirical evidence and scientific interest for this issue are still very limited in the Italian scenario.

The purpose of this paper has been to shed light on the question of whether CSP affects positively, negatively or does not affect financial performance – measured in terms of stock prices – of Italian listed companies. In this study, we contributed to Corporate Social Responsibility theoretical debate, in the field of the relationship between CSP and CFP, by: (a) feeding the existing evaluation theoretical stream of market financial performance measures; (b) testing the effect of CSR disclosure in the Italian stock market, which is not very much investigated; (c) verifying the effect of CSP variables on stock prices.

According to Matten and Moon (2008), the Italian scenario presents the characteristics of a National Business System (Whitley, 1997) that hypothetically can favor what they call "implicit CSR": (a) a political system heavily influenced by the power of the state, (b) a stock market not well developed and not representing the most important source of capital; (c) high levels of union membership and (d) the absence of "giving back" philosophy with a cultural reliance on the role played by the state, political parties, the Church and so on. These elements, together with the embedded relations with few key stakeholders, lead the Italian companies toward CSR practices that seem to be a reaction to the institutional environment, or simply a "Americanization" of management practices (Child, 2000) rather than a deep, really voluntary and well planned corporate's decision.

The empirical evidence showed that in Italy, even if an increasing number of firms started to develop socially responsible behaviors, financial markets recognize a negative premium to them: a good CSP reduces stock prices of listed companies especially in the Utilities and ICT sectors and this reduction is particularly evident in the case of environmental policies disclosure. A higher focus on CSR practices related to the Environment (such as the reduction of environmental impact and its measurement, the implementation of controlling emission ratios, etc.), is negatively evaluated.

Hence, the Italian investors, being mainly focused on blockholders' perspective with a short term view, attribute a negative value to these practices perceiving them as avoidable expenses reducing companies' profits. A potentially interesting key of lecture of our work is linked to the results of Barnea and Rubin (2006). They argue that firm's insiders, such as the large blockholders, so much spread in Italy, may have an incentive to over-invest in CSR for their private benefits: in fact, by doing so, they could improve their private reputation as good global citizens. In particular, they demonstrate that, after a given threshold, the marginal effect of an additional dollar of CSR expenditure is a decrease of both shareholder income and firm value.

In summary, our research confirms that the relationship between CSR and company's performance is still a "work-in-progress" issue strongly dependent on the particular context of each country, the different sensitivity of the investors and the bargaining power of the different categories of stakeholders. Thus, it is difficult (and maybe wrong) to assume an overall general framework for this topic.

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