Ethical/Sustainable/CSR (ECS) Public disclosing information and financial performance

Lucely. Vargas P, Maurizio. Fanni

Abstract— With the globalization Businesses are international institution with a lot of power. Business malpractices have the potential to inflict enormous harm on individual, communities, and environment affecting corporation's reputation. The demands from direct and indirect stakeholders to behave ethically have been increased. This paper presents an alternative approach and the relationship of this with finance. This new paradigm for sustainable business is focusing on integration of the 3 Business dimensions for responsible business: ethical, corporate social responsibility and sustainability, information that is public communicated by business - ethical/CSR/sustainable disclosed information. The methodology used is an overview of literature review articulated on a case of study and both event study method in efficient markets and market model.

Keywords— Ethical/CSR/sustainable dimensions, ethics rating, events studies, sustainable reports.

I. INTRODUCTION

The globalization factor makes Businesses very economical powerful entities. Because of the globalization and business operation in international environments theoretical values/principles definitions are beginning to occur with regularity [1]. However, no always the globalization is viewed as a positive fact. In the context of business ethics, it plays a crucial role in the view of Multinational Corporation. They are accused of exploiting workers less in developed countries; they destroy environments, and abuse of the economical power, practices against ethical values such as: (1) low supplier channel standards (2) pollution, (3) cost of labor force, (4) Child labor exploitation [2]. The demands, from all stakeholders to behave ethically, are increasing today.

With the financial crisis a need in principles and business values is required. The proposal of this investigation is to present a new sustainable approach the integration of the 3 dimensions in business for responsible firms, and then to identify some disclosing public’s events that are representative of 3 dimensions for responsible business. Then, it will be analyzed the relationship between Ethical/CSR/Sustainable and financial performance based on the share price investigation affected but public announcement of ethical/CSR/sustainability in a case of study of Generali Insurance company. The results show that there is a tendency of share value increasing and decreasing of financial value in the presence of the ethical/CSR/sustainable events but these changes are not significant in the daily financial returns when there is a present information related with CSR, and the presence of ethics/CSR/sustainable is rewarding the company in the long term.

II. BACKGROUND

In the framework of ethics there are international principles and standards which firms voluntary adopt and put in practices in their operations. The directional directories on making decisions and operation of any organization are the ethics, and the principles, [3]. The concept of corporate social responsibility was popularized by [4] with his book strategic management, a stakeholder approach. Social Responsibility “began where the law ends” [5]. A firm could not be considered socially committed if at least it does not behaving according with the law requirements. Social responsibility is referring to the balance of interest of multiples stakeholders [5]. According to the definition of the European commission is “a concept whereby companies decide voluntary to contribute to a better society and a cleaner environment” [6] by integrating “social and environmental concerns in their business operation and in the interaction with stakeholders” [7]. Stakeholder are demanding and pushing business to behaved responsible, “Satisfying Stakeholders’ interest’s leads improving financial and economical performance” [4]. From the point of investors, there are a lot of people who prefer to invest in companies with CSR concerns, even if their profits are less, because “SRI investors are willing to accept suboptimal financial performance to pursue ethical or social objectives” [8]. CSR also makes reference to socially responsible investments (CSR)/(SRI) which have grown rapidly around the world, and is a process that integrates social, environmental and ethical consideration into ethical decisions making [8]. CSR gives an industrial competitive advantage, attractive for individual and institutional investors “Investor expectation is translated into the security prices” [9]. Other information is divuluated by ethical rating agency and sustainable indexes, [10]. The leading questions of this

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study are what are the dimensions of the sustainable finance on business operation and how do they an effect on share price value in a specific case of Generali Insurance Company? In this investigation an Event Study is conducted to analyze the impact of Ethical, CSR and sustainability (ECS) in financial performance. Event studies are “often used to show the effect of news or events on share price attempt to reflect how the market and investors react to good news and bad news about specific companies” [11], and they focused on the abnormal share returns around the date of the announcement [12]. Company share price normally goes down when it is bad news and increasing when there is good news -public information-.

III. THEORETICAL APPROACH

A. Ethical, Corporative Social Responsibility and Sustainability Dimensions

Ethics and principles are framework on making decisions and operation of any organization. Some corporations like Shell, Bp, Nike, Gap, Coca-Cola, JP Morgan Chase, and other companies have been affected in their reputation because they have been acting in opposite way to ethical values. On the other hand, companies, ethics in business is getting importance, “Fortune Magazine reported that over 50% of US Corporations have values statements more than double of a decade ago” [1]. This ethical dimension is part of the organizational culture. When people in organization shares meaning, values, belief, and values at the core organizational culture is created, “organizational culture is highly related to values” [1]. Companies gives more formal aspect to their ethics in the code of ethics or code of conduct; ethics is the high standard of “business conduct” as “integrity, honesty” [13] and important aspects is international principles. The first dimension of sustainable finance is referring to ethical International principles1 and values that came from UN, EU and OECD, principles that companies integrate into the operation, code of ethics, principles that shows company’s values, sharing by the organizational culture. That ethical business -international principles- behaviour is manifested when a company has a sustainable strategy “The strategy is the leveraging of a firm’s internal source, capabilities and core of competences to accomplish the firm goals in the competitive environmental” [14]. “Started with the mission, focus the organization in actions, it determines the specific strategy to obtain the crucial goals, it creates discipline organization” [15]. Business sustainable strategy is conditioned by their values, integrating the 3 elements of sustainable/CSR meaning social, environmental and economical, with concern about stakeholders and their social expectation. CSR has strategic dimension of voluntarism which refers firms participate in social actions beyond that demanded by the law [16]. Firms communicated those ethical principles in the strategy using public events such as sustainable reports, ethics codes and are evaluated by ethical rating and sustainable indexes.

1) Some International Guidelines:

Some examples that are the framework of the first dimension, the ethical dimensions that a business could consider are: OECD Guidelines Organization for Economic Co-Operation and Development2 The OECD standards are voluntary; there are no punishments or sanctions to penalize a company that violates them. UN Guidelines The United Nations Global Compact, also known as Compact or UNGC, is a United Nations initiative that encourages business in the world to adopt sustainable and socially responsibility policies, and to report on their implementation. Global reporting Initiatives (GRI). Global reporting initiative (GRI) is the products in the world in sustainability standard reporting guidelines. Sustainability reporting is the way and an action where an organization publicly communicates its economic, environmental, and social performance. Generali, Insurance Company created in Trieste, Italy, in 1831, introduces in their operation/ethics international principles and represents their ethics in its Code group; throughout ethical codes organizations gave more formal aspects to ethical compromise. Moreover, Generali Ethical Code was established in May 2004, and in August 15th 2005 the code was adopted by 41 Italian companies and 19 companies abroad. In September 20th 2007 Generali makes the Adhesion to UN Global Compact and create a Sustainable commitment. In 2004 it was setting up of the Eco- Committee and the publication of the ethical Code for Relation with suppliers and the company has a specific department for sustainability.

2) Defining CSR and Sustainability

The CSR responsibility corporate social responsibility is widely discussed in theory and practice; there is no general agreement about its definition: “It is the proper role or obligation of MNCs with the society” [3]. According to the definition of the European commission’s is “a concept whereby companies decide voluntary to contribute to a better society and a cleaner environment” [6] by integrating “social and environmental concerns in their business operation and in the interaction with stakeholder” [7].

In this research, the term of Corporate Social Responsibility (CSR) will be defined such as: Voluntary behavior that is space between the law and social expectation, expectation of stakeholders [17]. To reach the stakeholders’ social expectations, companies need to be very creative in the integration of the economic, social, and environmental issues in the company’s sustainable strategy, which make reference to the sustainable part. In this point the third sustainable dimension takes place involving CSR/ethical: International standards and principles are incorporated in their own

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1 Some of the international, principles and standards (1) The International Pact on Civil and Political Rights; (2) International Pact on Economic, Social and Cultural Rights; (3) Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; (4) Convention on the Elimination of All Forms of Discrimination Against Women; Convention on Human Rights and Fundamental Freedoms

2 OECD web site, http://www.oecdwatch.org/
corporate values, and strategy to be sustainable in the social, economical and environmental issues. The economical aspects in this investigation will be analyzed based on the connections between ethical/CSR and finance later in this paper, the third dimensions (1) Ethical (International principles), (2) Corporate social responsibility (CSR), (the Voluntary satisfying the stakeholders expectation going further the law) and (3) Sustainability (Integration of social, economical and environmental issues) to create a sustainability compromise, analyzing the financial aspects. CSR ethical behavior generates ADD value, of Public as well and private companies in the more long term, because of company’s reputation, customers and employees’ loyalty and positive investor’s perception, and less in the short term.

Creation of social value and in the long term converge with economical value

Incorporation of the 3 dimensions in the corporate strategy for responsible business

3) Ethic/CSR/Sustainable Business communicate thought Sustainable Reports, Ethics rating and Sustainable Indexes

CSR reporting are gaining importance, “CSR reporting is a key tool for communication with stakeholders about CSR activities” [18]. Generali follows standards of GRI, reporting Framework, Sustainability Reporting Guidelines. In each suitable report, Generali communicates some objectives, and in the following report for the next year, an accounted objective is presented. Therefore, the reporting and disclosing of CSR by the companies is a very important part for the shareholders information to be communicated. “Communication of an organization’s social impact is important, and disclosing true and relevant information about corporate behavior, can have benefits for stakeholders, organizations and society [18]. Moreover, Ethics Rating is one of the methods to evaluate the performance of the company; this evaluates the integration of the 3 dimensions of Ethical, CSR and sustainable (ECS).

IV. THE CONNECTIONS BETWEEN ETHICS/CSR/SUSTAINABILITY AND FINANCIAL PERFORMANCE

There are several studies that investigate the link between financial and social performance, “the connections between social and financial performance play an important role in the analysis of social responsible investments (SRI)” [19], investors with concerns on CSR performance prefer invest in firm with this CSR as well even though they have less profit. The relationship between CSR and financial performance has been investigated in theoretical and empirical studies and the Quantitative empirical research presents 3 methods, [20]: (1) Portfolio studies comparing: portfolio of environmental and social proactive and reactive companies -, (2) Events studies investigating markets responses after CSR - related events (3) multiple regression studies, for more information see [21]. Events studies are used to show the effect of events news on share price; interesting event studies in economics and finance have been developed by [12] and for [11]. It is important to see that “perhaps the most successful application of event studies has been in the area of corporate finance”. Important examples included the wealth effects or merger and acquisitions, and the price effects on financial decisions by firms [12].

V. METHODOLOGY

In order to evaluate our case of study and Ethical/CSR/Sustainable Generali Group compromise, a Literature review was conducted and an information analysis of websites, sustainable reports, ratings ethics emissions, sustainable index took place, information related mainly with Generali Insurance Company, those are representative. To see how the 3 dimensions are articulated in Generali Insurance ethical, CSR/sustainability compromise the information was summarized in Sustainable Events in the sustainable finance, some representatives events of the 3 dimensions were used to determine how this Ethical performance affects its share value in the short time. In other words it was analyzed if the share prices that reflect firms’ financial performance are affected by public information of environmental, social and economical performance. In order to measure the effects of CSR on share price, it is conducted an event study, supported in the model market. Event studies measures change in share prices based on the announcement of events. “Event studies are useful method for assessing the financial impact of new information on a firm’s share price”, [11], “the stakeholders view holds satisfaction stakeholders interests will improve in financial and economical performance” [4]. In the long term there is generation of financial value. Because of the fidelity of investor and clients and employees, firms investing in CSR create shareholder value in the long and the stock markets undervalue CSR in the short term [8]. The question leading this study is if CSR has an effect on share price value?
A. Methods

The first step in this research was to define the event studies of interest, specify data, (See Events Descriptive statistics table 1). The second step was to identify the period over which the share prices of the firm is examined, in other words, the event window. The period defined was of 29 days. Then calculations: Generali Actual return (Rjt)The share of return/actual return was calculated using: Rjt = (Pjt – Pjt-1)/Pjt-1 Where Rjt is the share return and Pjt is the share price for day t and Pjt-1 is the share price for the previous day. Calculation of the Generali Expected return E(Rjt): The expected return of the Generali was obtained using the market model equation: E (Rjt) = alfaj + Bj Rmt + Ejt Where Rmt was the return on a market index/S&P-mib for day t, B measure the sensitive if a firm to the market risk., alfj, measure the mean return over the period not explained by the market (intercept), and E was a statistical error term sum (E) = 0. Calculation of the Abnormal return or unexpected return

If there are differences in the actual return and the expected return, it is possible to talk about abnormal returns or unexpected returns. AR/abnormal return/Unexpected return = Actual return (Rjt) - Expected return/normal return E(Rjt)

ARjt = Rjt – E(Rjt) <> 0 if the different is different from zero there are unexpected return. And abnormal returns= Ejt = Rjt – (alfaj + Bj Rmt + Ejt)AR = unexpected return for day t and E (Rjt) is the expected share return for day t. The abnormal return is the normal return menus expected return. The unexpected return is the normal return menus the expected return AR/abnormal return/Unexpected return = Actual return (Rjt) - Expected return/normal return E(Rjt).

The following, Table II, of events shows the descriptive statistics, the event data analysis, the statistics data are from July 10th 2001 with event study window 2-7-01 until April 15th 2008 with event study of 8-05-08. Abnormal returns were calculated for each day of the events windows and for each event the. ARjt = Rjt – E(Rjt) <> 0 and the different between the actual return (Rjt) and the expected returns E(Rjt) was different from zero, for all of data of the sample. It means that they were unexpected return for each event and event windows. The event window for the event 1: Inclusion of the Generali Group in the Index FTSE4Good Index, runs from de date, 2/7/01 until 10/8/01 (29 days). In which period the actual return and expected return were compared. The difference, the Abnormal return (AR), for the days 10 of July 2001 was AR= -0,004562242. It was negative. The actual return was less than the expected return. In the followings days the day 12th AR = 0,005680708 and 13th AR = 0,008373558 were positive. It could be possible to say that being included in the index is perceived positive by investors in the following days after the event took place. Investors could be informed and their decisions could be affected by sustainable comprise of Generali Group –The inclusion in the index FTSE4Good-. It is important to say that the unexpected return is not significant.

The actual return = Rjt = 0,001895825 = the expected return was E (Rjt) = 0,006458067. For the event 2 Publication of code of ethics 11 of may 2004 the unexpected return was = -0, 003508625 and the 12th and 13th the values were also negative -0, 008455881 -0, 007365439 14th, 17th, 18th and 19th were positive 0, 008903778; 0,00434883 0,001125009 and 14th, 17th, 18th and 19th were positive 0, 008903778; 0,00434883 0,001125009 0,002312166 respectively. For the event 3 and 4 unexpected return was negative and not very significant different from zero, neither the variations in the following days. For the event 5,6,7,8 the expected return was positive and not significant different from zero and the trend was positive and has lead positive impact on the returns. For the event 9, Publication of the forth sustainable report group for 2005 the abnormal or unexpected for the 15th = 0,001529571 16th -0,004811732, 17th 0,004663636 and 18th 0,003587541. For the days 16 and 17 and from the 19th until 30 of April the value was negative again. The expected return was higher than the actual return. In the period of the studies, no confusing events that could interfere with the analysis of the information were identified. It was not the case for this research. In the databases: LexisNexis Group and SOLE 24 ORE, only two no confusing news -that not interfere significantly were found.

<table>
<thead>
<tr>
<th>Event window</th>
<th>Data Events</th>
<th>Event descriptions</th>
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<tbody>
<tr>
<td>2/7/01 - 10/8/01</td>
<td>July10th 2001</td>
<td>1. Inclusion of the Generali Group in the Index FTSE4Good Index</td>
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<tr>
<td>21/4/04 - 31/5/04</td>
<td>May 11th 2004</td>
<td>2. Publication of the Generali Group’s Ethical code</td>
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<tr>
<td>25/2/05 -7/4/05</td>
<td>March 18th 2005</td>
<td>3. Deletion from the FTSE4Good Index</td>
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<tr>
<td>22/7/05 - 31/8/05</td>
<td>August 15th 2005</td>
<td>4. The Code was adopted by 41 Italy</td>
</tr>
<tr>
<td>2/9/05 - 12/10/05</td>
<td>September 15th 2005</td>
<td>5. The first Group Sustainability Report was published,</td>
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<td>5</td>
<td></td>
<td>- Publication of the Ethical Code for Relations with Suppliers for 2004</td>
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<td>- Setting up of the Eco-Committee for 2004</td>
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<td>27/6/06 - 4/8/06</td>
<td>July 5th 2006</td>
<td>6. Study of AEI standard ethics rating, emitted by [22].</td>
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<td></td>
<td></td>
<td>Generali receives an ethics rating of E+ in 2002-2006</td>
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<tr>
<td>28/8/06 - 5/10/06</td>
<td>Sept 15th 2006</td>
<td>7. Second Sustainability Report was published in 2005</td>
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Representative events of ethics/CSR/Sustainability dimensions disclosed
VI. CONCLUSIONS

In the ethical finance a new paradigm, the root of the problems, is based on moral, and principles compromises. The new paradigm has 3 dimensions: (1) ethical dimension the pivot of business operation [3], (2) CSR dimension – voluntary initiative beyond the law (dynamical law), meeting social expectations (stakeholders expectation) poverty decreasing, SRI, education provider, concerns about environmental and social and (3) sustainable dimensions; the integration of the two dimensions in economical, environmental and social issues; the interactions of 3 dimensions converge to ADD value, important value in the long term, social value. Moreover, “Firms ignoring socially responsibility may destroy long run shareholder value due to reputation losses and/or potential litigation cost”[8] When companies have a compromise to satisfy social expectations, the new capacity and the new reputation is reflected in firms’ value. It occurs mainly in the long way, because the company reputation is increasing and the costs of demand are reducing. Mainly, in the long term there is generation of share value. “Some CSR studies argue that firms investing in CSR create shareholder value in the long run although stock markets undervalue CSR in the short run ”[8]. In the case of study of Generali with event study’s methodology analyzing the share value generated in the short term were not significant.

REFERENCES