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The Impact of CSR Efforts on Firm Performance in the Energy Sector

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Abstract

The purpose of this research was to investigate the relationship between Corporate Social Responsibility (CSR) and the financial performance for publicly-traded firms operating in the energy sector. The energy sector has a unique role to play in global CSR efforts because of the size of the firms within that industry, their impact on the environment, and the operational risks that come with energy production. Previous research has been conducted on the relationship between CSR engagement and financial performance in various contexts, but this research has shown mixed outcomes – in some cases there is a positive relationship between CSR and performance while in other studies the research is non-existent or marginal (Lech, 2013; Jha & Cox, 2015). Thus, the research question for this study addresses a significant gap in the understanding of this topic by exploring the relationship between CSR and firm performance in a contextualized setting of the energy sector. A regression model was used to test the hypothesis that a correlation exists between CSR and performance. The independent variable in this study is the ESG disclosure score for each firm as published by Bloomberg (2016), which represents how much CSR activities each firm discloses. The dependent variable was a series of three financial metrics – return on assets, return on equity, and EBITDA. The relationship between the independent and dependent variables was tested for statistical significance at the 10%, 5%, and 1% levels on 0-4 year intervals, with a corresponding effect size reported for each relationship.

Keywords: CSR, stakeholder theory, shareholder theory, energy sector

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Chapter 1

Introduction

The meaning of work and the purpose of business have been discussed since the time of the ancient philosophers as both the Greeks and the Romans approached work from a hedonistic perspective. Romans, such as Plutarch, described work as a tool for the lower class to provide goods and services from which the elite class of society might benefit. “Gentlemen enjoy the contemplation of the sculptor’s masterpieces, but he would never himself use the hammer and chisel to get covered with sweat, dust and grime” (as cited in Gini, 2003, p. 37). Greeks, such as Aristotle, described work as enslaving the soul which prevents the use of reason and limits the availability of leisure time (Sachs, 2002). Work should therefore be relegated to the use of slaves. Marx (1939) objected to this classical viewpoint on labor. He opined that labor objectified the worker and alienated him from his true purpose which was to contribute to a common social good. “What differentiates human beings from animals is not only that they work freely and purposefully but also that they work consciously for one another. They relate to one another as human beings” (as cited in Volf, 1991, p. 60).

Taylor’s (1911) scientific method heralded operational efficiency as the be-all-end-all for business as it produced the greatest fulfillment of potential for both the business and the individual. The birth of marketing in the 1950s pointed towards a customer-centric purpose for business. Drucker (1954) famously offered that “there is only one valid definition of business purpose: to create a customer” (p. 37). Levitt (1960) claimed that a focus on production means that marketing gets sacrificed, and he urged industries to focus primarily on the expressed and implied needs of their customers.

This evolution of interpretations on the purpose of business spans wide historical and cultural milieus. Eventually, this evolving understanding of work yielded to one of the most popular of the contemporary viewpoints on the subject – corporate social responsibility (CSR). Under CSR, the purpose of business is to contribute in a meaningful way to the needs of society.

In a review of several top CEOs outlook on business, Klein (2012) found the common theme that affirms this social purpose of business: "every corporation has an overarching social purpose that transcends the operations of corporate social responsibility and, when well understood and effectively integrated, can have profound business and social results" (Klein, 2012, para 4)

Although scholars differ in their understanding of how this is best achieved, CSR is a trend that dominates the academic literature on business ethics. In the last three decades, the notion of CSR has garnered much scholarly attention and case studies that shed light on its impact and implications abound. The stakeholders of a business are parties that influence business decisions and consist of both internal and external parties that are directly and indirectly affected by business decisions (Brammer et al., 2007).

The Relevance of Stakeholder Groups

CSR emphasizes the need to consider all stakeholder needs. But which stakeholders does this include and what justifies this attention? Stakeholders are classified as either internal stakeholders, such as shareholders and employees, and others are external stakeholders, such as customers, community members, and government entities (Bateman & Snell, 2013). This section identifies these major stakeholder groups and provides a rationale for why they need consideration in the corporate decision-making process.

Shareholders have long-been considered the primary stakeholders of an organization. Shareholders should be given consideration as stakeholders for two primary reasons. First, their capital finances the business and makes its operation possible; second, as owners their physical and intellectual property rights as well as their fiduciary interests are respected (Post, 2003; Smith & Rönnegard, 2016; Sheehy, 2006). Employees play a key role in the business process and can be leveraged to create a competitive advantage. This reality notwithstanding, Gilley and Maycunich, (2000) argue that employees have intrinsic value and should be afforded personal and professional development regardless of the explicit value they bring to the firm. As stakeholders, they should be given consideration because of this intrinsic value and the human dignity they have as members of the organization.

Customers are the buyers of the output of business processes. Pragmatically, they should be given consideration as a stakeholder group because business survival depends on it. Not only do their consumer needs require attention, but so too does their interest in social justice and ethical causes (Zaharia & Zaharia, 2013). Research confirms this notion: “69% of consumers are likely to purchase stock in a company well-known for its ethical standards” and “81% of consumers are more likely to purchase from corporations that are active in philanthropic efforts year-round” (Aflac, 2015, p. 2).

Community members should receive explicit consideration as stakeholders because they are a part of the system in which businesses operate. Businesses receive inputs from their community, perform some process to transform those inputs and then rely on the community to consumer the output (Desjardin, 2011). More importantly, business transforms the physical and social environment in a myriad of ways, and they need to calculate this impact in their decision making. As such the physical environment is an extension of this stakeholder group (Fisher, Geenen, Jurcevic, McClintock, & Davis, 2009).

From a practical standpoint, the local and national government as a stakeholder should be given consideration in the form of compliance because failure to do so could result in penalties and in severe cases termination of business operation. However, government is also an important stakeholder because it serves as an important representation of the collective values of the communities in which business operates. For the same reasons that communities receive consideration, so too should the government as a proxy for their collective interests (Desjardin, 2011). To illustrate these obligations, the following scenarios elucidate the impact that business has on their social environment and various stakeholder groups.

Impact on Employees as Stakeholders

At 8:46 am on September 11, 2001 American flight 11 collided into the 93rd through 99th floors of the north tower of the World Trade Center. Trapped on the floors above the crash were 658 employees of Cantor Fitzgerald, a trading company that specialized in U.S. bonds and other financial securities. The gruesome result of the terrorist attack was the loss of these employees, who constituted 25% of all Cantor Fitzgerald's employees worldwide. The company CEO, Howard Lutnick, demonstrated extraordinary leadership in the face of this unprecedented disaster as he grieved with coworkers over the loss of family. He vowed to do everything that he could to help the families of the lost employees, yet he faced an extraordinary challenge – the financial position of the company was in turmoil with much of the revenue generating components of the business now vanished. Two days after the event he mobilized the remaining workforce and had the business operational. The denouement of this epic event in their corporate narrative lied in this CEO's declaration that despite the limited capital and disastrous financial position of the company, he would pay out 25% of the company's profits over the next five years and cover ten years of health benefits to the families of the lost employees (Maggitti, Slay, & Clark, 2010). Despite not having any contractual or legal obligations to the bereft families, Lutnick made financial decisions that considered their needs.

Impact on the Community as Stakeholders

In the late 1970s, the research and development arm of the pharmaceutical company Merck discovered a cure for river blindness. The disease had impacted communities in Africa and Latin America and the drug was developed to prevent more devastation. The challenge they faced was that people most affected by the drug could not afford to buy it. After unsuccessful solicitations to the World Health Organization and the U.S. State Department to subsidize the drug, Merck decided to produce the drug at their own expense and distribute it at no cost to communities in the effected regions. Despite initial attempts to monetize their investment, Merck decided that their discovery was too valuable to simply abandon. After clinical trials were completed, Merck donated 700 million dosages of the drug (Walsh, 1987). Their actions supported the notion that corporate profits did not always have to trump corporate philanthropy and commitment to the common good.

In the pre-dawn hours of March 24th, 1989, the oil tanker Exxon Valdez ran aground on Bligh Reef. The captain of the ship had gone to bed and left the wheelhouse in charge of a third-mate to pilot to navigate the treacherous waters of Alaska. The punctured hull allowed 53 million gallons of crude oil to spill into Prince William Sound which contaminated 1,300 miles of coastline and killed over 250,000 animals as a direct result. Two-thousand Alaskan Native Americans and 13,000 subsistence permit holders could no longer harvest their food from the ocean. In the immediate aftermath, the tourism industry of Alaska fell $2.4 billion and cost 26,000 jobs (U.S. Economy, 2016). The negligence of the ship's crew during the crash, and the reluctance of Exxon Mobile to fully embrace the cleanup efforts resulted in this historic environmental catastrophe. Clearly, stakeholders not involved in the business of Exxon were affected by their operational decisions.

Impact on Consumers as Stakeholders

Finally, in mid-2008, the U.S. economy experienced one of the most dramatic declines since the Great Depression. The housing market bubble damaged consumer confidence in credit markets and major banks suffered drastic devaluation of their balance sheets and market capitalization. Crude oil prices peaked at $145.29 per barrel in July and had fallen to $81.19 by October (Krauss, 2008). Fertilizer markets were trading at over 300% of the five-year average in August and by October prices had fallen to sub-trend values. Five of the ten largest single-day declines in the Dow Jones industrial average took place in the last four months of the tumultuous year of 2008, each at least a 6-7% decline (Rowen, 2015). The negative results on consumers, manufacturers, suppliers, and financial institutions were dramatic. People close to retirement had lost much of their retirement portfolio. More than 10,000 suicides from 2008-2010 were attributed to the fall-out of the economic crisis (Haiken, 2014). U.S. banks and car makers were being bailed out with taxpayers' money to stay solvent.

Some of these scenarios showcase a positive embrace of outside stakeholders while others demonstrate negligence or apathy toward them. Cantor Fitzgerald displayed compassion to employees, Merck addressed a social issue, Exxon Valdez demonstrated the negative impact on communities, and the 2008 financial crisis impacted consumers. These events show that businesses do impact stakeholders beyond their legal and contractual obligations.

The function of many businesses since these events is now clearly focused on being a responsible, active member of the society from which they operate and profit. Patagonia CEO and founder Yvonne Chouinard, known for engaging social causes, built his business around these principles. He claims that, "making a profit is not the goal because the Zen master would say profits happen 'when you do everything else right" and that "how you climb a mountain is more important than reaching the top" (Chouinard, 2005, para 1). These sentiments reflect a growing trend in business practice to examine the means and motivations for providing products and services as a way to better serve their customers, employees, and the environment. Kiron, Kruschwitz, Haanaes, & Velken, (2012) conducted a survey corporate managers from top companies in the U.S. and found that 70% of companies included CSR initiatives on their corporate agenda and 67% did so because they saw CSR as necessary to maintaining a competitive advantage.

The Research Question

These examples illustrate the impact that a corporation can have on various stakeholder interests. The purpose of this research is to explore how CSR efforts affect the financial performance of a firm. The energy sector has a unique role to play in global CSR efforts because of the size of the firms within that industry, their impact on the environment, and the operational risks that come with energy production. This study focuses on CSR efforts within the energy sector and explores the disparate or positive impact it can have on firm performance. The background of this research inquiry and statement of the research problem are explored in the following section. The following section outlines the importance of conducting a focused study on this industry and on garnering a deeper understanding of the relationship between CSR and financial results.

Statement of the Research Problem

The debate in the literature regarding CSR was predominantly theoretical following the publication of Friedman's (1970) shareholder view of the firm and Freeman's (1984) stakeholder view of the firm. However, the topic of CSR gained increased coverage in the academic literature following the slew of corporate scandals from the early 2000s (Laplume, Sonpar, & Litz, 2008). Since that time, the conversation has progressed towards an empirical analysis of the impact that CSR has had on financial results and social status of business (Lech, 2013; Jha & Cox, 2015).

Empirical research on CSR has been conducted in a multitude of practitioner contexts and include country specific analysis, volatility in financial markets, defense contractors, real estate management, inventory management, firm size, foreign direct investment, strategic management, response to competitive pressures, and credit ratings

(Mishra & Suar, 2010; Dam, 2008; Halpern, 2008; Blomé, 2012; Barcos, Barroso, Surroca, Jordi, & Tribo, 2013; Milczewski, 2016; Isukul, 2013; Isaksson, 2012; Kemper, Schilke, Reimann, Wang, & Brettel, 2013; Attig El Ghoul, Guedhami, & Suh, 2013).

Within the energy markets, several studies have contributed to the understanding of CSR and its implications. Wilson (2016) explored Greenland's dependency on foreign direct investment in the hydrocarbon energy market as a means to access the immense capital that energy production requires, and found that the region was vulnerable to the whims of investors' risk appetites and their tendency to pull out of the market when investments did not yield expected results. In this case, management decision did not adequately address the needs of their primary stakeholders which are public investors. Dong and Xu (2016) found that Chinese mining firms' compliance with domestic environmental regulations was slow and that responses were only an attempt to remain legitimate and to survive. CSR efforts of these firms did not adequately include Chinese and foreign governments as relevant stakeholder groups. Böhm, Brei, and Dabhi (2015) conducted a case study of the energy corporation EDF Energy and concluded that efforts put towards sustainable environmental practice in the home region of the UK was not being replicated in areas of the world where regulations and public pressures compelled them likewise.

This heavy reliance on capital (Wilson, 2016), compliance motivated response to regulation as a means to survive (Dong & Xu, 2016), and imbalanced CSR efforts in home versus foreign operations (Böhm, Brei, & Dabhi, 2015) are important contexts for understanding how firms are responding to CSR. The literature continues to produce new studies on the financial impact of CSR on firms, yet a gap in the research exists that explores the long-term profitability of CSR efforts for U.S. firms. Moreover, more research is needed on the impact of CSR on the energy industry because the unique challenges and obstacles to engaging in CSR in the exploration, collection, production, and distribution of the energy that the infrastructure of global markets relies so heavily upon. In light of these gaps in the literature, the essence of this research attempts to answer the question – *Do companies operating in the energy industry benefit financially from engaging in CSR efforts.*

Definitions of Terms

Corporate Social Responsibility (CSR). A corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. The construct of CSR was originally defined by Bowen (1953) as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). A more recent understanding of CSR entails actions taken by a firm intended to further social goods beyond the direct interests of the firm and above that which is required by law (Nemetz, 2014, Doh & Guay, 2006; McWilliams & Siegel, 2001).

Stakeholder theory. Stakeholder theory has been defined as "organizations should be managed in the interests of their constituents, not only in the interest of shareholders" (Laplume, Sonpar, & Litz, 2008, p. 1153). Stakeholders have been defined as individuals, groups or relationships that have an interest in a firm, whether or not the firm has a corresponding interest in the stakeholders, with the presumption that the interests of all stakeholders have intrinsic value (Nemetz, 2014, Donaldson & Preston, 1995; Freeman, 1984; Freeman, 2010; Freeman et al., 2013; Mitchell, Agle, & Wood, 1997).

Shareholder theory. Friedman (1970) defined shareholder theory by the notion that "the social responsibility of business is to increase profits."

Energy Industry. The set of firms operating in the collection, production and distribution of energy. The energy industry for the purposes of this paper will utilize the classifications utilized by Platt's Global Energy Rankings (S&P Global, 2015). These classifications include firms in the sectors of coal and consumable fuels, diversified utility, electric utility, exploration and production, gas utility, independent power producers, integrated oil and gas refining and marketing, and storage and transfer.

Firm Performance. Firm performance will be defined as the financial outcomes of each firm to measure three specific areas which include income as measured by EBITDA, efficiency in use of assets as measured by return on assets (ROA), and how much value is created for shareholders as measured by return on equity (ROE).

Corporate Social Irresponsibility (CSI). CSI serves as the antithesis of CSR and is defined as "a socially irresponsible act is a decision to accept an alternative that is thought by the decision maker to be inferior to another alternative when the effects upon all parties are considered. Generally, this involves a gain by one party at the expense of the total system" (Armstrong, 1977, p. 185).

Delimitations

This research project has been delimited to energy companies that are publicly traded and also included in Bloomberg's ESG rating system. While this will provide greater implications for that industry, this reduces the generalizability to other sectors and to other geographic regions. Moreover, the results of this study will not be practical in analyzing privately-held corporations because those entities operate under different incentives than their publicly-traded counterparts.

Assumptions and Limitations

Most of the research on CSR evaluate the use and effectiveness of the programs but do not distinguish between firms that engage in CSR for intrinsic reasons and those that engage in CSR because of the financial benefits. “For most companies, CSR is PR. It looks good. It sounds good. It’s the ‘right’ thing to do — and it gets the media out of their face” (MacMillan, 2012). As such, one limitation of this study is that there is no distinction between the companies who engage in CSR for altruistic purposes and those companies motivated by financial gain.

Corporations that have consistently impacted their stakeholders in a positive manner should be given credit for their sustainable action, but attention also needs to be given to the list of companies who respond to stakeholder needs only after negative publicity of putting profits first. For example, Nike was heavily criticized in the 1990s for its labor practices in Asia that included use of child labor, poor working conditions, and maintenance practices that resulted in unsafe facilities (Nisen, 2013). The savings from this manufactural outsourcing were used to finance multi-million dollar, celebrity-centered marketing campaigns. Nike’s problems culminated in a 2013 factory collapse in Bangladesh that killed 96 workers and injured an additional 1,000 (Engel, 2013). Since that time, Nike has worked to rebuild their tarnished reputation by increasing the transparency of where and how their products are made, increasing wages for Asian workers, adopting the rigorous OSHA safety and pollution standards, and publishing an annual report on CSR efforts (Nisen, 2013).

Another example can be found in BP's efforts to rebuild their business following the 2010 Gulf Oil spill on Deepwater Horizon. The oil spill shed light onto the repeated safety violations and the company's toxic work culture that focused on profits and efficiency instead of public safety and green energies (Walsh, 2010). Since the disaster, the company has recommitted to the original promise of "Beyond Petroleum" by re-iterating their commitment to social and environmental responsibility, focusing on alternative sources of energy, and overhauling corporate procedures that are focused on safety and environmental concerns (Muralidharan, Dillistone, & Shin, 2011).

This research project does not provide insights on the motivations displayed by companies like Nike and BP. Companies, like the aforementioned, responding to a negative public backlash are analyzed independent of motivations. This project does not delineate between these motivations and those companies motivated by the intrinsic value of CSR. It simply explores the relationship between profits and CSR efforts, as defined by Bloomberg's ESG scores.

Three inherent limitations exist in the use of the Bloomberg's reporting of ESG disclosure scores used in this study. First, these scores are accessible via their proprietary software and hardware combination known as a Bloomberg Sustainability (Bloomberg, 2013a; Bloomberg, 2013b). Hence the information published by Bloomberg is accessible only by paid subscription. This commercial interest in use of the data is a limitation to the study because it may lend itself to a bias in how the data is collected and reported to paid subscribers.

The second limitation on using this dataset for analysis is the exact methodology used to calculate ESG disclosure scores is not described by Bloomberg. Bloomberg constructs the scores utilizing annual reports, sustainability reports, press releases, and third-party research, but does not disclose the process or method used to process the information. Additionally, the score is comprised of several areas of data coverage including energy and emissions, waste data, women on the board, independent directors, workforce accidents, turnover, injury rate, water usage, and payroll. However, there is no indication of how much weight each area is given. This lack of methodological description notwithstanding, an empirical study conducted by Dorfleitner, Halbritter, and Nguyen (2015) found that Bloomberg Sustainability did not vary significantly from competing commercial data models such as ASSET4 database of Thomson Reuters' Datastream and the KLD ratings provided by MSCI ESG STATS.

A third limitation of using Bloomberg Sustainability is in the availability of more years of ESG publication. For a majority of the energy companies studied in this research, ESG scores are available beginning in 2010. As such, the variables can be tested for five years lag, but no timeframes beyond that.

Significance of Study

In recent years, particularly in developed countries, businesses have received increased expectations to consider the social impact of business decisions (Martin & Bampton, 2014). Brower and Mahajan’s (2013) multi-industry study of 477 companies from 2000 to 2007 found that some firms are more responsive to the demands of outside stakeholder groups. More specifically, increased pressure from stakeholders results in more CSR engagement for firms that have a higher degree of sensitivity to stakeholder needs based on the value created by their products, face a more diverse set of stakeholder demands, and are subject to a higher level of scrutiny and risk from stakeholder response.

All sectors of society such as government, communities, private citizenry, religious entities, and business impact sustainability. However, business has a unique role to serve in that they utilize a larger portion of resources (environmental, human capital, financial) than their counterparts. As such businesses are expected to responsibly process resources in a way that does not harm society. This means that they make explicit considerations for their work force, political environment, physical environment, special interest groups, the rights of citizens, and consumers. The challenge is that they must strive towards making a profit while operating in this social context (Brammer, Millington, & Rayton, 2007).

Shareholder theorists see CSR activities as a cost while stakeholder theorists see CSR activities as a deontological obligation, which entails as ethical obligation that one has towards their fellow human beings (DesJardin, 2011). This dichotomy means that CSR can be evaluated from both a strategy standpoint and an ethical standpoint. Both models claim to best serve the needs of society. For example, shareholder proponents make an inductive claim in that societal needs of job creation, production innovation and generation, and contribution to a positive economic cycle are the inductive results of a primary focus on long-term shareholder wealth maximization. In many cases shareholder interests benefit from addressing stakeholder interests. However, engaging in CSR activities is purposeful only to the degree that it improves long-term financial health of the organization (Jensen, 2002). Moreover, compelling corporations to directly consider social needs presupposes that the individual characters that own the organization cannot take care of social needs via personal contributions afforded them via wealth-maximization.

Stakeholder theorists claim that more immediate considerations are necessary to properly serve the needs of society. This is based on Kant's deontological obligation businesses have to those affected by their business decisions. Gibson (2000) argues that if we universally accept the construct of corporate personhood, then all of the duties and obligations we expect of human members of society should extend to the corporation.

Energy markets have received increased focus on CSR which include the substantial impact they can have on the environment (greenhouse gas, e.g.), higher risk for employee safety issues due to the industrial nature of the industry, and the increased pressure the industry receives to produce green energy. The significance of this study will be in relationship between CSR and firm performance. If CSR activities produce greater profits in the long-term, companies would be compelled to engage in CSR activities, thereby fulfilling their financial obligations to shareholders and their deontological obligations to other stakeholders. Because the impact on financial results will be investigated, the findings will provide insights into which theory better serves the financial interests of the primary stakeholders of a company - shareholders. This is distinctly different from the essential question of CSR over the previous three decades which has been which model better serves the needs of society (Smith, 2003). If the results show that CSR efforts lead to increased or sustained financial performance, then shareholder interests are ostensibly being served by focusing primarily on the various stakeholder interests. If the results show that CSR efforts are not leading to financial performance, we can reasonably conclude that shareholder interests are not being served by trying to balance the needs of other stakeholders groups.

Researcher's Perspective

The perspective that I bring to this research is informed both by my personal spirituality and by my seven years of commodity trading experience within the energy industry. As a Roman Catholic I adhere to the social teaching of the Church and follow the guidance of our pontiff, Pope Francis. The focus of his papacy has been on social justice and consideration for the marginalized members of our society, the poor members of our communities in particular. Church tradition emphasizes that business practice is inherently a good end, but that “God intended the earth and all that it contains for the use of every human being and people. Thus, as all men follow justice and unite in charity, created goods should abound for them on a reasonable basis” (Paul VI, 1965, #69). This perspective compels me to embrace stakeholder theory as a moral worldview which is further bolstered by the writings of St. Thomas Aquinas in his work, Summa Theologiae: “The right to property must never be exercised to the detriment of the common good” (Aquinas, 1282, p. 282).

My professional life was guided by the free-market culture of the organization for which I worked, Koch Industries in Wichita, Kansas. The business philosophy of Koch Industries emphasized the guiding principles of value creation, principled entrepreneurship, and creative destruction – tenets focused on improving the financial welfare of the organization. The social activism arm of the organization lobbied for less regulation and more economic freedom of American businesses. Charles Koch, CEO of the company succinctly summarized this philosophy when he iterated: “Allowing people the freedom to pursue their own interests, within beneficial rules of just conduct, is the best and only sustainable way to promote societal progress" (2007, p. ix).

These principles reflect a shareholder view of the firm in that employees are directed to maximize shareholder value and society would benefit from the resulting purveyance of services they desired, the jobs afforded to members of the community which sustain the local economy, and the increased profits that result in a higher rate of charitable donations from both the organization and the employees. This inculcation of free-market thinking led me to believe that I could best serve my society and fulfill my deontological obligations as required by my religion by working hard and creating value for my employer.

As I progressed in my career, the dictums of the Catholic Church on social justice caused a growing sense in me of cognitive dissonance. I began to question the assumption that shareholder value really was the most appropriate way to live out my faith in my career. This dichotomy is the foundation for my research question regarding CSR. My church obliged me to make explicit considerations for all stakeholders in my business decisions while my employer made the case that I could still serve them by maximizing profitability. My inclination is towards the former in that stakeholder theory better serves societal needs, and I write this dissertation with that world view. Given the quantitative nature of the research, this bias will not be reflected in the findings of the analysis, but lends itself to ample coverage in the discussion and implications.

Chapter 2

Literature Review

This study focuses on the impact that CSR efforts have on the financial performance of an organization. To properly contextualize the research question, it is appropriate to review the divergent ethical and strategic viewpoints of corporate social responsibility (CSR). This section summarizes the literature on both shareholder theory and stakeholder theory, offers a critique of both models, and demonstrates where each model has been adopted as praxis. Finally, the current trends, developments and emerging research areas in CSR are explored.

A 20th Century View on the Purpose of Business

The purpose of business evolved throughout the 20th century. The hedonistic viewpoints of the Greeks and Romans long gone, practitioners such as Taylor (1911) ushered in business' new *raison d'etre* of efficiency. In 1919, the Michigan Supreme Court ruled that Ford Motor Company must act primarily in the interests of the shareholders of the firm. This case is often cited as the precedent that supports shareholder interest as the primary purpose of business (Wishnick, 2012). The ruling concluded:

> A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among stockholders in order to devote them to other purposes" (Dodge v. Ford Motor Co, 1919).

The age of efficiency in the first half of the 20th century precluded managerial attention or business purpose focused on the customer. During this timeframe when efficiency reigned, Ford (1922) famously wrote “any customer can have a car painted any color that he wants so long as it is black” (p. 72). Drucker (1954) offered a radical opposition to operational efficiency with his declaration that “there is only one valid definition of business purpose: to create a customer” (p. 37). Levitt (1960) suggested that the emphasis Taylor and Ford placed on production resulted in marketing myopia and short-term thinking. Gailbreth (1958) argued that it was marketing and advertisement itself that created demand for products, creating in customers a dependency on the product and resulting in increased profitability. The work of Levitt and Drucker revolutionized how businesses looked at the market place, where response to consumer needs dictated profitability (Cranier, 2006).

The second half of the 20th century produced a wide breadth of business purposes which included an emphasis on creative destruction, wealth maximization, competitive strategy, innovation, and most notably, corporate social responsibility (Schumpeter, 1950; Friedman, 1971; Porter, 1980; Christensen, 1991; Freeman, 1984). The latter of these will be the framework used for this research and is discussed in the following section.

Corporate Social Responsibility

The construct of CSR was defined by Bowen (1953) as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (p. 6).

This idea of CSR was ardently rebutted by Friedman (1970) with the mantra that "the social responsibility of business is to increase profits." His assertion, later referred to as the shareholder view of corporate responsibility**,** is the mantra for free market thinkers, and continues to propel the debate on the issue. A related construct is stakeholder theory whereby "organizations should be managed in the interests of their constituents, not only in the interest of shareholders" (Laplume, Sonpar, & Litz, 2008, p. 1153). Freeman (1984) originally sought to include the various stakeholders in the overall strategy of the firm. Freeman (1994) later defined the various groups of stakeholders to include management, local community, customers, employees, suppliers, and owners. Other uses of the term will include these stakeholders as well as government entities, as suggested by Dahan, Doh, and Raelin (2015).

The seminal works of Friedman and Freeman sparked volumes of debate on the best means of approaching CSR since their publications. Evidence suggests that stakeholder theory of Freeman impacts customer and employee perceptions. For example, research shows that many customers choose to buy from companies with whom they associate as being socially responsible and workers vet potential employers as socially responsible places to work (Duschinsky, 2013; Michel & Buler, 2016).

The term corporate social responsibility (CSR) is a controversial concept, yet its implications and impact on global business are markedly timely (Laplume, Sonpar, & Litz, 2008). CSR is timely because of the slew of corporate scandals that from the late 1990s and early 2000s as well as the fall out of the 2008 financial market crisis. The corporate world has been scrutinized by the media, consumers, governments, religious organizations, and the general public for the decisions during these eras that were distinctly self-serving and inward-looking. CSR is also a contentious subject in that it challenges the traditional notion that the manager as an agent of the company should make decisions that are not immediately in line with their fiduciary obligation to the shareholders of the firm.

Shareholder Theory

Bowen's definition had clear implications for business, yet it begged the question "which lines of action best serve the objectives and values of society?" The debate on this subject was further propagated when Milton Friedman (1970) claimed that businesses should focus on their own profits as a means to serving society and that the "the social responsibility of business is to increase profits." Making decisions that only served the rational self-interest of the company would beget additional profits, and as a result more jobs would be created. Jobs were the means to creating more contributing members of the community in that they could continue to consume and to create additional demand for goods. This business model that contributed to a positive economic cycle, as espoused by Friedman became known as shareholder theory, and was the answer to Bowen's call to create desirable courses of action for society.

The normative view of shareholder theory is explained by Moore (1999). He argues that shareholder theory has as much legitimacy and supportive evidence for practice as other theories that prescribe how businesses should operate in society. He claims that shareholder theory supports agency theory, espouses property rights as an intrinsic value, maintains moral duty to society via compliance with legal and contractual obligations, and leads to a real impact on social institutions.

The Shortcomings of Shareholder Theory

A market failure is considered by economists as a "[situation] in which the pursuit of profit will not result in a net increase in consumer satisfaction" (DeJardin, 2011). The existence of market failures is the primary evidence for debunking the legitimacy of shareholder theory because shareholder theory is built on the utilitarian principle of maximizing social good. Friedman based his argument on Smithian economics that private parties will only engage in contracts that best serve their rational self-interest, thereby maximizing overall utility in society. However, three types of market failures exist that reduce this overall consumer satisfaction. They are all related to each other, and they essentially demonstrate that the private market cannot account for all of society's needs (Salanie, 2000).

The first market failure is when the transaction costs of private contracts are borne by individuals not involved in the contract. Examples of this include air and ground pollution, nuclear waste disposal, depletion of natural resources, proliferation of weapons, and ground erosion. The true transaction costs of the exchanges that produce these effects are not internalized to the contract itself, and thus society experiences the negative externalities of the contract. Society, as a collection of consumers, will be less satisfied with the production of goods with this type of market failure as an outcome. The equilibrium of costs and benefits are not distributed to the parties engaged in the contract (DeJardin, 2011).

The second form of market failure is that no pricing mechanism exists for most public goods. Examples include the fresh air, marine life, safe neighborhoods, and pristine wilderness. Profit maximizing does not take into account the protection of these goods and their contamination or depletion cannot be priced into contractual obligations. Something beyond the private market needs to take care of public goods.

The third form of market failure is when individual decisions are aggregated to make a negative impact on the collective good. Examples of this include a personal decision to drive high gas mileage cars. Individually, there is not much impact on the environment, but collectively, the impact becomes significantly more pronounced. In these scenarios, cooperation leads to a more optimal outcome than a long series of independent personal decisions. Again, a mechanism outside the scope of the transaction between a car dealer and private citizen needs consideration.

In these three variations of market failure, government regulation could abate some of the impact, but at the practical level businesses are best equipped to address them by focusing on areas beyond simple profit. Thus, a major criticism of Friedman's definition of shareholder theory is that market failures do not necessarily lead to a maximization of social good.

Stakeholder Theory

The debate on CSR was re-ignited with the publication of Freeman's (1984) *Strategic Management: A Stakeholder Approach*. His theory called into question the primacy of profits for business as an instrumental means to serving society. Rather, the explicit needs of all stakeholders directly and indirectly affected by the conduct of a business should receive consideration. Known as stakeholder theory, the basic idea was that "organizations should be managed in the interests of their constituents, not only in the interest of shareholders" (Laplume, Sonpar, & Litz, 2008, p. 1153). The list of internal and external stakeholders has been debated since the publication of stakeholder theory and no exhaustive, agreed-upon list exists. However, both theoretical pieces and empirical studies have considered a wide list of stakeholders to include community, corporate governance, diversity, employee relations, environment, human rights, consumers, government, religious entities, and shareholders (Becchetti, Di Giacomo, & Pinnacchio, 2008; Laplume, Sonpar, & Litz, 2008; Becchetti, Ciciretti, & Giovannelli, 2013; Nemetz, 2015; Ramasamy, Yeung, & Au, 2010). While stakeholder theory has its detractors, it has grown in popularity with both scholars and practitioners because it taps into the affective foundation of human decision making (Weick, 1999).

Laplume, Sonpar, and Litz (2008) conducted a systematic review of the literature on stakeholder theory for the time period 1991 to 2007 and identified five common themes. These common trends included (1) definition and salience, (2) firm action and response, (3) stakeholder action and response, (4) firm performance, and (5) theory debates. This early review of the literature showed a preponderance of theoretical discourse and limited empirical evidence testing the validity of stakeholder theory. The emphasis on theory pieces eventually progressed to quantitative studies on the financial impact of stakeholder strategies on business. This research over the last decade has given both scholars and practitioners alike valuable insights into the importance of stakeholder theory.

Stakeholder theorists view shareholders of the firm as investors who provide capital as another essential component to the business process in the same way that other stakeholders provide resources such as customers (demand), suppliers (physical resources), employees (labor), and government (rule of law) (DesJardin (2011).

Stakeholder theory has its roots in strategic management in that it prescribes how managers should operate their business, but it has also been normatively argued from an ethical standpoint (Mintzberg, Ahlstrand, & Lampel, 1998; Purnell, & Freeman, 2012). The genesis of stakeholder theory was a direct response to shareholder view of the firm as articulated by Friedman (1970) whereby wealth maximization for owners of the firm was the only ethical consideration for management (Laplume et al., 2008). Freeman (1984) argued that the shareholder view of the firm ignored the legal and cultural precedents from the previous century that recognized managerial obligations to other stakeholders.

Ethical ground for stakeholder theory is based in both deontology as well as utilitarianism. Considering the needs of all stakeholders stems from a deontological obligation that each person has towards their neighbor. In this sense it reflects a Kantian approach in treating each person as an ends and never as a means. Corporations focused solely on profits might violate this norm when they use employees or customers for financial gain. Stakeholder theory would view these actions as unjust. The utilitarianism of stakeholder theory is reflected in Freeman's (2010) argument that "the primary responsibility of the executive is to create as much value for stakeholders as possible, and that no stakeholder interest is viable in isolation of other stakeholders." Maximizing net utility is the overarching goal for a stakeholder theorist and no single stakeholder's need should carry primacy.

Stakeholder Theory as an Ethical Obligation

Deontological ethics focus on the duties that businesses and individuals have towards their fellow man. Kant (1785) is best known for his utilization of its principles in his discourse on categorical imperatives. Under his reasoning, no human being should be treated as a means to an end, but as an ends unto itself. A manager that pays low wages to employees and does not make provisions for workplace safety violates this principle, and results in a dereliction of the deontological obligation a manager has towards employees. Selling unsafe or untested products to consumers is treating them as a means to profit for shareholders. Dumping waste into the atmosphere or ocean violates the deontological obligation owed to the global community. Stakeholder theory implies a manager's obligation to shareholders, just not as the sole obligation (Phillips, 2004). In the same way that the previous examples violate an obligation to employees, customers, and community, a manager that uses all of the corporation's profit to address the needs of outside stakeholders violates a duty they have towards serving shareholders.

A shareholder theorist would refute the deontological obligations to anyone other than owners and say that the categorical imperative is irrelevant to outside stakeholders. This viewpoint would ignore two realities. First, Kant is widely recognized in the academic community as the father of modern moral thinking, and his epistemology on the categorical imperative resonates with moral philosophers (Kreeft, 2009). In short, it is a generally accepted perspective on how to view the duties towards fellow man.

Second, and more practically, deontological obligations are already reflected in the norms under which our society operates vis-a-vis the laws and social contracts that guide our decisions. For example, government regulations require businesses to take care of their employees needs through landmark laws such as the Fair Labor Standards Act (FLSA), Family Medical Leave Act (FMLA), and regulations of the Occupational Safety and Health Administration (OSHA). Consumer safety laws and tort laws protect the rights of consumers. The Sherman Antitrust Act protects the rights of competitors within an industry (as well as consumers). Communities are protected with EPA regulations that are intended to prevent pollution. Future generations are protected from resource depletion through fishing quotas and ethanol mandates that slow our consumption of oil reserves. Even shareholders are protected by the implementation of accounting reporting requirements so that they can make investing decisions using accurate information. The institution of these laws is evidence that society has accepted the categorical imperative as socially normative. This bolsters the argument that managers do have a deontological obligation towards stakeholders beyond those of shareholders. In these examples, the government is compelling the organization to consider the needs of stakeholders. In many cases, corporate decisions that do not violate the law but that violate social expectations can face enormous pressure from communities and activists to comply (Nemetz, 2015).

The Progression of Stakeholder Theory

Despite the lack of a universal meaning or agreed upon definition, the concept of stakeholder theory is considered by many scholars a strategic approach to corporate social responsibility (CSR). For the purposes of this paper, stakeholder theory will be defined as "organizations should be managed in the interests of their constituents, not only in the interest of shareholders" (Laplume, Sonpar, & Litz, 2008, p. 1153). Stakeholder management has been interchangeably used with a long list of other academic terms that include corporate citizenship, public responsibility, shared value, corporate social performance, stakeholder management, sustainability development, corporate social policy management, and corporate social policy management (Sheehan, 2013; Kim, Kim, & Tam, 2016; Kiser, Leipziger, & Shubert, 2014; Wood, 1991; Sturdivant, 1979; WBCSD, 1987; Epstein, 1989).

It is important to note that managerial response to the various stakeholder needs has been both mandatory and voluntary in nature. Multi-lateral treaties and trade agreements between nations, as well as the policies of international governing agencies such as the United Nations, International Monetary Fund, and the World Trade Organization have compelled managers to consider human rights and environmental impact of their global business decisions. Domestically, organizations must comply with the long list of legal requirements pertaining to the various stakeholders: carbon pollution control, employee safety regulations, effluent water run-off, fair hiring practices, and more recently, refusing to do business with certain customers on the basis of moral disagreements. Voluntary actions to accommodate the needs of all stakeholders can be altruistically motivated, but research suggest that businesses also respond to the tangible benefits from these efforts such as improved brand image, customer relationships, higher sales, organizational reputation, higher credit ratings, and reduced employee turnover (Popoli, 2011; Cotton, 2006; Lii & Lee, 2012; Attig, El Ghoul, Guedhami, & Suh, 2013; Ho, 2012). Voluntary response to stakeholder needs has also led to an increased rate of self-reporting of the environmental and social activities of the firm. This concept was first introduced in the academic literature as the triple bottom line (Spreckley, 1981), but has also been referred to as a balanced scorecard, sustainability reporting, social reporting, and CSR reporting (Kaplan & Norton, 1996; Gray, 2000; Chiu & Wang, 2015; Baden & Harwood, 2013).

For its part, stakeholder theory has changed the way that both academicians and businesses view the social context. Contributions of the theory can be measured by how much coverage in the academic literature it has garnered as well as its efficaciousness of getting managers to engage all stakeholders. Baden and Harwood (2013) estimate that in 1990, there were 10 articles in prominent journals that addressed stakeholder theory, but today there are thousands annually. In short, stakeholder theory has contributed to a tremendous scholarly discourse and affects both strategic management as well as business ethics.

First, the academic discussion indeed rose in popularity since the publication of Freeman's (1984) articulation of stakeholder theory. Laplume, et al. (2008) summarized the research on this topic in their meta-analysis that outlined both the theoretical developments and the empirical frameworks that analyze its instrumentality. One area of research focused on defining CSR and identifying how salient the concept was within organizations. These researchers first attempted to figure out who is affected by managerial decisions. For example, Clarkson (1995) separated primary and secondary stakeholders. Mitchell, Agle, and Wood (1997) found that managers pay attention to stakeholders' needs based on their perceived legitimacy, actual power and influence, and ability to create urgency within the organization.

Moriarty (2014) makes a theoretical case that not only should all stakeholder groups be managed responsibly, but each stakeholder group should have some sort of representation on the corporate governance board of the organization. He claims that when stakeholder theory first emerged in the literature that stakeholder democracy was the emphasis, but since that time the field has trended towards a simple management of stakeholder needs with no representation from each group. He calls his work an "excavation and defense" (p. 820) of the early viewpoint on stakeholder theory and bases his argument in Kantian ethics: if each stakeholder is to be treated as an end, they should be allowed to participate in the decisions that impact them.

Stakeholder theory has been cased in other theoretical frameworks as well to make a normative case. These include the common good, critical theory, deontology as defined by Greek philosophy, libertarianism, organizational justice, and pragmatism (Argandona, 1998; Reed, 1999; Gibson, 2000; Freeman & Phillips, 2002; Hosmer & Kiewitz, 2005; Buchholz & Rosenthal, 2005). This next section focuses on how stakeholder theory has been implemented as normative business practice.

Criticisms of Stakeholder Theory

Fort (1997) levies several criticisms against stakeholder theory. First, the theory provides no practical guidance on how to employ a stakeholder management strategy. It offers no rubric for deciding which parties are affected by business decisions which make it a difficult task for a manager to balance the needs of each group. Even when there is a *prima facie* scenario that shows which stakeholders need consideration, balancing the needs can be impossible because some stakeholder needs are inherently at odds with each other. For example, taking care of employee needs puts shareholder interests at risk, and making environmentally sound decisions can jeopardize customer expectations of cheap prices. Other criticisms of stakeholder management include the way it attenuates the mission and undermines organizational goals, increases social influence on business, and propels business into social causes they do not have the capability to manage (Robbins, DeCenzo, & Coulter, 2011).

Stakeholder Theory in Business Practice

The contribution of stakeholder theory to business praxis can be gauged by the actions of corporate managers since its inception. The results are mixed. On the positive side, in the last three decades corporate donations to charities has risen more than five-fold, from $3.67 billion in 1982 to $18.0 billion in 2012 (Stern, 2013). Charitable donations represent only one facet of stakeholder management. However, charitable contributions show that managers are making considerations for outside stakeholders. Does this mean that managers are finally utilizing a stakeholder approach?

Detractors will say while overall donations are on the rise, the percentage of total profit that is donated is falling. In 1986, corporate donations represented 2.1 percent of total profits while in 2012 the percentage represented 0.8 percent (Stern, 2013). More incriminating than the reality that stakeholder theory has not permeated corporate culture is the profusion of corporate scandals of the last two decades. All ten of the largest corporate fines in history have been assessed in the last fifteen years (Plunkett, 2014), including a still outstanding $34 billion fine sought by prosecutors to BP for the Deepwater Horizon oil rig explosion in 2010. What's more, these fines also represent a larger portion of corporate profits than ever before; Johnson and Johnson's $2.2 billion fine in 2012 erased a quarter of their profits that year and Abbot Lab's $1.5 billion fine in 2012 represented a third of their annual profits.

Ambiguity

A discussion of stakeholder theory would be incomplete without inclusion of its criticisms. Detractors of the theory note that the term itself is ambiguous and as a result there are competing understandings of what constitutes a stakeholder (Baden & Harwood, 2013). This makes execution of the strategy subject to the myriad interpretations of how it could be implemented and hence offers no universal prescription for a company that desires to implement a stakeholder management strategy. From an economic standpoint, stakeholder theory takes managerial energy and focus away from their primary obligation: fiduciary responsibility to the owners of the firm. Allocating resources away from this end is a wasteful endeavor and constitutes negligence on the part of the manager, as agent of the firm.

Managerial Expertise

On a practical level, balancing the needs of all stakeholders requires first of all an understanding of the breadth of stakeholders affected by a business decision and their unique needs. Moreover, actively engaging every stakeholder in a meaningful way seems implausible, given the competition between the needs of various stakeholders. In terms of efficiency, businesses are equipped to operate in their industry but they are not knowledgeable on the nuances of social activism or skilled in initiating social change. Managers benefit from the learning curves experienced in the daily discharge of their duty, but they are afforded limited opportunities to develop a skillset that would afford them success as social activists. Therefore, any attempt to utilize a stakeholder approach would create increased costs, which are ultimately borne by the consumers of the business and hence society (Robbins, DeCenzo, & Coulter, 2011).

Complicated Corporate Structure

Another salient criticism of stakeholder theory is that it unnecessarily complicates the structure and operation of corporate governance as executives turn their focus away from the organizational mission in a way that inhibits entrepreneurial energy and risk-taking (Sudaram & Inkpen, 2004). Finally, stakeholder management is subject to the likelihood that at least some of the resources allocated to outside stakeholders will be misused or misappropriated by special interest groups (Jensen, 2004). It seems the resonance of stakeholder theory has reached the desk of many managers as evinced by an increase in philanthropic efforts, yet still remains unheeded by others as evidenced by instances of egregious corporate behavior. The success and the contribution of Freeman's monolith of stakeholder management are still outstanding in terms of corporate adoption.

Incentives

A key criticism to stakeholder theory is that not only does the theory lack a prescriptive method for prioritizing stakeholders, but neither does it consider the impact that managerial incentives have on this prioritization (Donaldson & Dunfee, 1994; Mitchell, Agle & Wood, 1997; Elms, Berman, & Wicks, 2002). Research shows distinctively that managers respond to incentives that are tied to performance, which include a desire for increased salary, increased value of stock options, promotion, end-of-the-year bonuses, fringe benefits, peer recognition, and improved industry reputation (Mclean, Smits, & Tanner, 1996; Wyld & Maurin, 2011; Ederhof, 2011; Anderson, Dekker, & Sedatole, 2010; Ololube, Nwokolo, Onyekwere, & Kpolovie, 2013; Broughton, 1986; Corona, & Randhawa, 2010). To achieve these incentives managers must meet performance indicators which lead a manager to make decisions based on their own economic interests and those of the shareholders of the firm. Thus, the performance-based compensation that drives behavior confounds a manager's ability to prioritize stakeholder needs outside of their own and the firm (Elms, Berman, & Wicks, 2002).

The Importance of CSR

The importance of CSR has been maintained from a normative perspective between shareholder theorists and stakeholder theorists. Both sides of this debate argued from a philosophical viewpoint over the best means to serving the needs of society. In this regard, CSR warrants attention for its altruistic components. Shareholder theorists argue that focusing on financial performance and conforming to legal standards creates stronger markets and therefore stronger economies and opportunities to serve the needs of the members of society (Friedman, 1970). Stakeholder theorists argue that explicit considerations need to be made for the involved shareholders of corporate decision making because there exists an intrinsic, deontological obligation to do so (Freeman, 1984).

In response to the slew of corporate ethical scandals (Tyco, Worldcom, Enron, and Siemens) that plagued the global business world in the late 1990s and the early 2000s, as well as the actions of business that contributed to the 2008 financial and housing market crash, the role of business in society has been heavily scrutinized. The scholarly commentary during this time initially came from academicians in the field of business strategy and business ethics as they prescribed the normative practices businesses should employ, but the debate eventually received contributions from economists and financial scholars who reported the financial implications of engaging in CSR activities.

The financial implications of CSR have garnered much of the attention in the literature since this time as scholars attempted to shed light on the propositions of stakeholder and shareholder theories. Unfortunately, empirical results of studies on the financial impact of CSR have conflicted in their conclusions. Some researchers have yielded results that indicate that CSR over the long-term unequivocally improves financial performance of a firm, while other studies have shown that only certain CSR efforts create meaningful returns (Margolis, Elfenbein, & Walsh, 2012). A few studies have reported initial improvement in financial performance with moderate expenditure and decreased performance at higher rates of financial expenditure (Fatemia, Fooladi, & Tehranian, 2015). Studies have been conducted on how CSR impacts market-to-book ration, return on assets, stock market performance, as well as how they choose countries in which to operate (Dam, 2008). Dimson, Karakas, & Li (2012) reported a 4% above market return for firms engaged in CSR activities and concluded that CSR efforts focused on corporate governance and climate change elicited a higher impact on financial results. A meta-analysis conducted by Margolis, Elfenbein, and Walsh (2012) that included 251 studies on financial impact showed a positive, but marginal impact of CSR on performance. These positive results of CSR notwithstanding, research has also shown that firms engaged in CSR endeavors have a lower return on equity and that the firm's financial risk was positively correlated to the level of CSR activity (Becchetti, Di Giacomo, & Pinnacchio 2008; Bouslah, Kryzanowski, & M'Zali, 2013).

While research indicates that CSR activities do enhance financial outcomes of the firm, these results are bolstered when the public is aware of the firm's activities. As such, press releases and advertising intensity of CSR activities are necessary expenditures for firms to benefit financially from their CSR efforts (Servaes & Tamayo, 2013; Hawn & Ioannou, 2014; Zyglidopoulos, Georgiadis, Carroll, & Siegel, 2012). This notion supports the findings of Hong, Kubik, and Scheinkman (2012) that firms must first build up a minimum level of financial wherewithal before they can engage in CSR activities in a meaningful way. They argue that a firm must "do well" financially speaking with initial focus on shareholder value so they can eventually "do good" in terms serving the public interests as affected shareholders.

The importance of CSR is therefore two-fold – (1) normative based practice with roots in altruism and (2) the practical implications that CSR has on financial performance. The former implies that CSR is "the right thing to do" while the latter implies that CSR is in the best interest of the company's sustainability and long-term viability. For these reasons, CSR will continue to be a focus for scholars in both the ethics and strategy disciplines, as well for scholars in finance and economics.

Current Trends and Developments

Literature on CSR initially focused on how individual managers should behave as agents of the firm and progressed towards how entire organizations should behave as social entities (Murphy & Schlegelmilch, 2013). A recent development in the literature reaffirms the validity of CSR as the predominant model of ethical corporate behavior and eschews shareholder theory as a legitimate ethical approach for business' role in society. This new model referred to as corporate social irresponsibility (CSI) states that a sole focus on profit maximization is inherently unethical and that the credence of stakeholder theory is categorically the only ethical means to serving society.

The concept of CSI was first introduced by Armstrong (1977) as he emphasized that CSI is "A socially irresponsible act is a decision to accept an alternative that is thought by the decision maker to be inferior to another alternative when the effects upon all parties are considered. Generally, this involves a gain by one party at the expense of the total system" (p. 185). Despite this early operationalization of CSI, the concept has received renewed attention in the literature over the last decade. Jones, Bowd, and Tench (2009) contrasted CSI and CSR as opposing extremes on a continuum. The negative associations of CSI as defined by Armstrong (1977) ostensibly replace shareholder theory, and indict the profit motive of this model as such as being intrinsically unethical. Jones et al (2009) delineate the behaviors that constitute CSI as lack of pollution mitigation measures, exploitation of employees as resources, treating social ethical issues as superfluous, strict adherence to legal compliance, and maintaining profitability as a sole priority. By contrast, CSR activities include consultation and engagement with the community to address social issues, treatment of pollution and environmental issues as apriori, introduction of new products that cause no harm, and ethical issues are given explicit consideration in the constitution of business strategies.

Alexander (2015) examines CSI as an underlying element of the 2008 financial crisis and explores how corporations defaulted to CSI as a means to self-preservation during an era of epic market volatility. Incentives to maximize shareholder wealth skewed the behavior of managers. His work expanded the scope of CSI to include the implication that managers should consider the ethics of outsourcing, alleviation of poverty, and social entrepreneurship.

The research on CSI has also been useful in understanding the moral outrage that occurs when stakeholders' expectations are not met. Antonetti and Maklanv (2016) identify the cognitive and emotional reactions that are triggered by CSI events and provide insights for how managers can navigate these events. Research further suggests that corporations engage in CSR as a form of penance immediately following exhibiting CSI behavior (Kang, Germann, Grewal, 2016).

Chapter 3

Methodology

This research study endeavors to uncover the relationship between CSR efforts and firm performance of companies in the energy sector. The following section outlines the methodology used to analyze this relationship. This research is quantitative in nature in that the data analysis component uses a single-variate regression model. These statistical tools will utilize the independent variable of CSR efforts to test for an effect on the dependent variables of financial metrics (EBITDA, return on assets, and return on equity).

Data Analysis

Quantitative research methodology is often defined in terms of using numbers, rather than words, as the basis for data analysis. While this is generally true, quantitative methodology is marked by an objective examination of variables to determine the relationships between them. This is achieved using the empirical method to test hypothesis, validated in observations of true experiments or quasi-experiments (Campbell & Stanley, 1963). Quantitative methodology can include the use of survey data, performance data, attitude data, observational data, census data, or various forms of archival data, and utilizes descriptive or inferential statistics as the main tools for interpretation (Creswell, 2014). It is used to test theories or explanations, identify variables, or establish validity or reliability of data. In this way, quantitative methodology attempts to limit bias in the approach to data analysis. Based in a positivist worldview, this approach is distinctively deductive in nature because it requires the use of mathematics and statistics to process the data.

This research study is quantitative in nature because the primary focus is to understand the relationship between a firm's engagement in CSR activities and financial performance. Firms are receiving increased pressure to engage in CSR from a myriad of stakeholder groups, including employees, governing bodies, special interest groups, customers, and local communities (Brammer et al., 2007). A study conducted by Nemetz (2015) of 400 international firms concluded that firms do respond to each of these stakeholder groups in their respective home-country. Responding to the pressures of these various stakeholder groups creates value for the firm inasmuch as the relationship with each of them is strengthened. For the socially responsible firm, customers are more loyal, employees are more loyal, governing bodies are satisfied with compliance, and news media provides favorable coverage (Dögl & Holtbrügge, 2013; Martínez & Rodríguez Del Bosque, 2013; Lepoutre, Dentchev, & Heene, 2007; Lunenberg & De Jong, 2016). This study sought to determine whether CSR efforts also create value for the shareholders through the tangible results of financial performance.

Bloomberg publishes annually an index that scorecards a large number of international corporations CSR efforts. Known as the ESG disclosure scores (which stands for environmental, social, and government), these will serve as the independent variable in the analysis. For the purposes of the study, higher ESG disclosure scores reflect a higher involvement in CSR efforts, and lower ESG disclosures scores reflect a reduced participation in CSR efforts. Bloomberg evaluates the CSR efforts of a firm by assessing three distinct areas of CSR – environmental (E), social (S), and governance (G). The governance component includes how efficient management of resources, emissions controls, community relations, development of human resources, and the organizational structure of their board and subcommittees (Bloomberg, 2017). ESG disclosure scores are defined as intangible, extra-financial measures of valuation risk that are based Bloomberg research (Nemetz, 2015). The ESG scores "…integrates material company and industry environmental, social and governance key performance indicators, comprehensive and proprietary fundamentals data, and the insight of the wider Bloomberg Industries analyst team…for emerging, long-term sustainability themes that present real risks and opportunities for whole industries and individual companies" (Bloomberg, 2013a; Bloomberg 2013b).

A prominent criticism can be levied against Bloomberg's ESG disclosure scores in that the purpose of gathering and reporting the scores is financial gain. This commercial end could lend itself to a bias that jeopardizes the integrity of the data. Dorfleitner, Halbritter, and Nguyen (2015) investigated this criticism to see if Bloomberg's valuation of corporate ESG ratings differed substantially from competing products of ASSET4 database by Thomson Reuters', Datastream, and the KLD ratings provided by MSCI ESG STATS. They found that while methodologies varied between the models, there was no statistical significance in the variance of reported scores. Since it began gathering ESG scores in 2008, Bloomberg has worked to establish the legitimacy of their ESG reporting. Park and Ravenel (2013) posit that "Bloomberg's unique position vis-à-vis the global financial community enhances this endeavor. Its role as an independent provider of data and information has reinforced the objectivity of its product because Bloomberg focuses on providing customers with data and tools that enable them to conduct their own evaluations" (p. 64).

To understand the legitimacy of Bloomberg Sustainability it should also be evaluated for its use in both business practice and academic research. Commercial users take the validity of the data serious enough to conduct technical analysis and then make subsequent trading decisions based on that analysis (Lo & Hasanhodzic, 2011). Bloomberg (2013a) reports that in 2009, they had less than 2,000 subscribers of this service, and in 2015, there were more than 17,000 subscribers. This increase in subscriptions would indicate that commercial users value the service and are willing to invest the $21,000 per year for access. Academic researchers have also validated the use of Bloomberg Sustainability. Bloomberg's ESG disclosure scores have been used empirically to investigate the impact of corporate sustainability projects, myths and realities of ESG reporting, firm response to ESG scores, correlation to firm valuation, the role of non-financial metrics in corporate strategy, systematic weaknesses in ESG reporting, and acceptance into mainstream investing by portfolio managers (Husted & Sousa-Filho, 2016; Kotsantonis, Pinney, & Serafeim, 2016; Lai, Melloni, & Stacchezzini, 2016; Fatemi, Glaum, & Kaiser, 2017; Eccles, Serafeim, & Krzus, 2011; Doyle, Visser, & Bendell, 2011; Park & Ravenel, 2013).

Sample

The sample of companies will include public firms that operate globally and are engaged in the production, storage, and transportation of energy. The sample will be pulled from the ranking system established by Platt's, an energy research agency. This system, known as Platt's 250 Top Global Energy Company Rankings, is regularly referenced in industry publications and has been used before in academic research (Dittrick, 2015; Bhatia, 2013).

Platt's ranking of the top energy firms measures companies' financial performance using four key metrics: asset worth, revenues, profits, and return on invested capital. Each of the firms on this listed are public companies and have at least $5 billion in assets. Platt categorized firms into five geographic regions of the world – North America, South America, Europe, Asia - Pacific Rim, and Africa - Middle East. Seven of the firms on this list were not analyzed by Bloomberg's and subsequently did not have an ESG disclosure score. These companies were not included in the study, which leaves a total sample size of 243.

Table 1 outlines, in U.S. dollars, the financial characteristics of the firms in this study by geographic region.

TABLE 1 - FINANCIAL METRICS OF FIRMS BY REGION (in $ millions, FY 2015)

	n	Company Assets Mean	Company Revenues Mean	Company Profits Mean
North America	102	34,751	20,046	1,393
Asia - Pacific Rim	75	35,008	27,625	1,271
Europe	51	72,077	49,137	1,657
Latin America	10	43,977	22,053	-50
Africa - Middle East	5	31,013	10,704	670
	243	43,365	25,913	988

Data Source: Platts Top 250: Global Energy Company Rankings

Method

ESG scores will be used as the independent variable to test for relationships with several financial metrics as the dependent variables. These include EBITDA, return on assets, and return on equity. Each of these metrics provides a unique insight into the financial performance and fiscal health of the organization.

EBITDA is a general indication of profitability and is generally considered a baseline financial metric (Faello, 2015). Given the capital-intensive nature of operating within the energy markets, it is important to understand how efficient a firm is utilizing their assets and how efficiently they are managing available capital. Return on assets and return on equity gauge a firm's success in pursuing these goals. They have been used before in analyzing financial performance in the energy sector which is the justification for using these ratios in the present study. Khatik and Nag (2013) clarify the importance of these ratios in their analysis of firm performance in the refinery and petrochemical sectors: "The overall performance or efficiency of a firm is a result of its working and operations, which are reflected in the margin it gets through carrying on business and the speed at which the assets are usefully employed in the business" (p. 810).

A regression model will be used to determine the relationship of CSR efforts to financial results of EBITDA, return on assets, and return on equity. The variables will be tested for correlation for the same year as well as in one, two, three, four years out. The relationship will be tested for statistical significance (p-values of <0.10, <0.05, and <0.01). An effect size (adjusted R_2) will determine the percentage of variance in the dependent variable as explained by independent variable. Figure 1 shows the five distinct regression analyses that will be run to test correlations on a time-lag basis, using ESG disclosure scores as the independent variable and financial metrics as the dependent variable. Each financial metric will be tested independently, which means that five regressions will be run on each (same year, as well as one, two, three, and four year lags).

Figure 1 - Regression Analyses to Test Correlation Between
ESG Scores (Independent Variable) and Financial Metrics (Dependent Variable)

Same Year	
ESG Scores	Financial Metrics
2010	2010
2011	2011
2012	2012
2013	2013
2014	2014
2015	2015

One year	
ESG Scores	Financial Metrics
2010	2011
2011	2012
2012	2013
2013	2014
2014	2015

Two year lag	
ESG Scores	Financial Metrics
2010	2012
2011	2013
2012	2014
2013	2015

Three year lag	
ESG Scores	Financial Metrics
2010	2013
2011	2014
2012	2015

Four year lag	
ESG Scores	Financial Metrics
2010	2014
2011	2015

Reporting for ESG disclosure scores for two-thirds of the firms in this study began in 2010. This means that the analyses in this study will focus on the four year relationship for a majority of the sample. However, a third of the companies have ESG scores beginning in 2006, which allows for a much longer lag time to test for correlation. As a supplement to the primary research analysis illustrated in Figure 1, a regression analysis will be tested on this smaller sample for eight, nine, and ten year lags.

Finally, additional regression analyses will be conducted for each financial metric to see how companies are impacted based on classifications within Hofstede’s (1980) cultural dimensions. These subsets include individualism versus collectivism (IVC) and long-term normative orientation versus short-term normative orientation (LTO). These cultural dimensions are appropriate for use in this study because they reflect cultural norms that would either encourage or discourage CSR efforts within corporations for each culture. A more in depth explanation of these variables is explained in this section.

Individualist cultures reflect a social expectation that individuals will take care of their immediate needs and those of their family and associates whereas collectivism entails a close social network whereby individuals meet the needs of their family and associates with an expectation of loyalty in return (Hofstede, 1980). Expected norms in individualistic cultures include right of privacy, "I" conscious, task over relationship, learning how to learn, and expression of personal opinion. Expected norms in collectivist cultures include a "we" versus "I" mentality, opinions determined by group expectations, relationship over task, and harmony should be maintained (Hofstede, 2011, p. 11). Under the rating system established by Hofstede, a score of 0-50 would indicate a collectivist culture and a score above that value would indicate an individualist culture. A limitation of using this metric is that there would be limited discernible difference in national cultures between a score of 51 (considered individualist) and 49 (considered collectivist). To account for this, a third category of "moderate" will be used as a classification. Each country will be put into one of three classifications – (1) collectivist for countries with a rating of 0-35, (2) moderate for countries with a rating of 36-64, and (3) individualist for countries with a score of 65-100.

The cultural dimension of long-term normative orientation (LTO) versus short-term normative orientation (STO) is identified as the degree to which a culture adapts to change. Cultural norms for long-term orientation include cultural traditions that continue to evolve, a view that the most important events in life will happen in the future, and attribution of success to hard work and not chance alone. Cultural norms for short-term orientation include cultural traditions deeply rooted and resistant to change, success attributed to luck, and a view that the most important events in life are those most recent (Hofstede, 2011). A limitation of using this metric is that there would be limited discernible difference in national cultures between a score of 51 (considered long-term) and 49 (considered short-term). To account for this, a third category of “moderate” will be used as a classification. Each country will be put into one of three classifications – (1) short-term for countries with a rating of 0-35, (2) moderate for countries with a rating of 36-64, and (3) long-term for countries with a score of 65-100.

Research Question

Research on stakeholder management as a conduit to long term financial performance has yielded conflicting results (Margolis, Elfenbein, & Walsh, 2012; Nemetz, 2015). Some studies definitively show, a positive relationship between stakeholder management and financial results while other research shows limited or no impact on financial performance (Margolis et al., 2012). Baron, Harjoto, and Jo (2008) found that sustained commitment to stakeholder management resulted in improved financial performance. Other key indicators of success have been investigated which lead to improved financial performance. For example, CSR efforts can result in improved customer relationships, a better corporate reputation, enhanced brand image, employee satisfaction, and reduced turnover (Moisescu, 2015; Fatma, Rahman, & Khan, 2015; Sinha & Dwivedi, 2015; Du, Bhattacharya, & Sen, 2015).

This study addresses a current gap in the research by exploring the impact of CSR efforts in a specific market – the energy sector. Moreover, this research will provide additional insights for what has been conflicting conclusions of previous studies on the topic of CSR efforts and financial performance. This research will investigate the following hypotheses:

H1 – There is a positive relationship between ESG disclosure scores and financial performance for firms within the energy sector

H0 – No relationship exists between ESG disclosure scores and financial performance for firms within the energy sector

Three sub-questions will also be explored within the data analysis.

1) What is the overall trend in ESG disclosure scores for the industry as a whole?
2) Do geographic regions within the energy sector vary in terms of CSR efforts impacting financial performance?
3) Do home-country Hofstede's (1980) cultural factors such as IVC and LTO influence the impact of CSR efforts on financial performance?

The purpose of this research is to prove that a relationship exists between CSR activities and financial performance. By conducting a series of regression analyses on time-lagged variables of ESG scores and financial metrics, a determination will be possible on whether a relationship exists between the two. This will include a five-year series testing for correlation and a series of additional regressions that break out each company for geographic and cultural differences.

Chapter 4

Results

Previous research has yielded conflicting results on the linkage between CSR efforts and financial performance. Some research shows that a positive relationship exists between them (Berman, Wicks, Kotha, & Jones, 1999; Baron, Harjoto, & Jo, 2011). Other research studies concluded that limited or no relationship could be identified (Abbott, Walter & Monsen, 1979; Balcom & Rawlins, 2010; Blowfield, 2005; De-los-Angeles Gil-Estallo, Giner-de-la-Fuente, & Griful-Miquela, 2009; Garcia-Castro, Arino, & Canela, 2010; Gauthier, 2005; Gjolberg, 2009; Gond & Crane, 2008; Murillo & Lozano, 2006; Peloza, 2009; Poddi & Vergalli, 2009; Turker, 2009). Therefore, by conducting this research the understanding of this relationship can be expanded with industry-specific insights on the subject.

This chapter addresses the research question and is organized as follows. First, a general description of the ESG scores and trends will be provided. Second, the research results from the regression analyses will be provided for each financial metric by geographic region. This section describes the support for the research hypothesis for each financial metric. Third, the regression testing a smaller sample over an extended lag period of seven, eight, nine, and ten years will be provided. Finally, the results of regression using Hofstede's (2011) cultural dimensions are described.

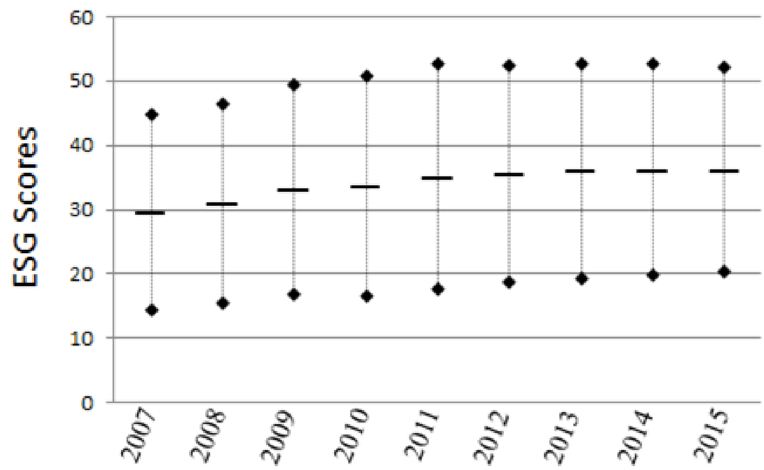
ESG Disclosure Scores

To answer the research questions, this study obtained ESG disclosure scores from Bloomberg's proprietary software program known as Bloomberg Sustainability for 243 of the 250 companies ranked by Platt's annual survey of global energy companies, known as Platt's 250 Top Global Energy Company Rankings. These energy firms have operations in energy production, transportation, and storage, and are categorized by Platt's into the following sub-sectors - coal and consumable fuels, diversified utility, electric utility, exploration and production, gas utility, independent power producers, integrated oil and gas refining and marketing, and storage and transfer. These firms produce and process energy using both fossil fuels such as coal, oil, gas, and other hydrocarbons, as well as from non-renewable sources such as photovoltaic power, solar, hydro-electric, geo-thermal, hydro-thermal, nuclear, and wind.

Platt's ranking of the top energy firms measures companies' financial performance using four key metrics: asset worth, revenues, profits, and return on invested capital. Each of the firms on this list are public companies and have at least $5 billion in assets. For analysis purposes, the 243 firms were categorized into five geographic regions of the world – North America, South America, Europe, Asia - Pacific Rim, and Africa - Middle East. Seven of the firms listed on this list were not analyzed by Bloomberg's and subsequently did not have an ESG disclosure score. These companies were not included in the study. The financial performance of the 243 firms was gauged in this study using three financial metrics – return on assets, return on equity, and earnings (EBITDA). The financial metrics were also gathered from the Bloomberg terminal and represent fiscal years 2010 through 2015.

In this study, ESG scores represented an indication of a firm's involvement in CSR activities. More specifically, it represents the rate of disclosure (or accessibility to information) of a firm's CSR activities. One sub-question of this research was to investigate the overall trend in ESG scores. The ESG scores obtained for the firms studied in this research show that over the previous eight-year period, mean scores have risen - from 30 in 20007 to 35 in 2015. Figure 1 demonstrates the trend over this period.

Figure 1 - Average ESG Scores (0-100) with Upper and Lower Standard Deviations (FY 2007 - FY 2015)



Data Source: Bloomberg's Terminal

Hofstede's Cultural Dimensions

The sample studied in this research represents 243 of the largest energy firms in the world operating in 39 distinct countries. A large number of firms in this data set have global operations, but were categorized into countries based on the location of their corporate headquarters. Table 2 shows the variances between these countries in ESG scores for the companies in this study as well as Hofstede's (2011) cultural dimensions of individualism vs collectivism (IVC) and long-term normative orientation (LTO). Countries with IVC scores above 50 are considered individualist countries and countries with LTO scores about 50 are considered to have cultures focused on long-term measures.

TABLE 2 - Mean ESG Scores and Hofstede (2011) Cultural Dimensions by Country

	n	Mean ESG Score 2015	Individualist vs Collectivist (IVC)	Long-term vs Short-term (LTO)
Argentina	1	19.1	46	20
Australia	3	49.6	90	21
Austria	1	61.0	55	60
Brazil	6	45.6	38	44
Canada	14	31.6	80	36
Chile	1	16.1	23	31
China	20	25.9	20	87
Colombia	2	62.7	13	13
Czech Republic	1	24.4	58	70
Finland	2	61.2	63	38
France	4	54.1	71	63
Germany	3	41.9	67	83
Greece	1	47.1	35	45
Hong Kong	12	24.3	25	61
Hungary	1	68.5	80	58
India	13	43.4	48	51
Indonesia	1	41.7	14	62
Israel	1	16.5	54	38
Italy	5	45.0	76	61
Japan	18	40.2	46	88
Kazakhstan	1	14.5	N/A	N/A
Malaysia	1	23.6	26	41
Netherlands	3	50.3	80	67
Norway	1	62.2	69	35
Papua New Guinea	1	52.7	N/A	N/A
Poland	3	23.1	60	38
Portugal	2	54.1	27	28
Russia	13	37.3	39	81
Saudi Arabia	1	6.6	25	36
South Africa	1	57.3	65	34
South Korea	3	47.0	18	100
Spain	6	62.6	51	48
Switzerland	1	14.0	68	74
Taiwan	2	42.1	17	93
Thailand	1	40.5	20	32
Turkey	2	36.0	37	46
UAE	1	12.0	25	0
United Kingdom	5	52.3	89	51
USA	90	31.6	91	26

Time-lag Regression Results

The purpose of this study was to identify if there was a relationship between CSR efforts as measured by ESG disclosure scores and the financial performance of firms operating within the global energy sector. The results of this study do not support the research hypothesis for the entire sample that a positive relationship exists between ESG disclosure scores and financial performance for firms within the energy sector. After testing one through four year lags, the results of this research demonstrate that no relationship exists between ESG scores and EBITDA (p = 0.63), return on assets (p = 0.84), and return on equity (p = 0.84).

TABLE 3 - Correlation between ESG Disclosure Scores and EBITDA (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
World	0.28	0.00	0.41	0.00	0.99	0.00	0.8	0.00	0.71	0.00
North America	0.37	0.00	0.21	0.00	0.16	0.01	0.57	0.00	0.93	0.00
Asia - Pacific Rim	0.54	0.01	0.79	0.00	0.83	0.00	0.98	0.00	0.61	0.00
Europe	0.24	0.01	0.33	0.00	0.49	0.00	0.46	0.00	0.75	0.00
Latin America	0.67	0.00	0.49	0.01	0.34	0.03	0.36	0.04	0.2	0.00
Africa - Middle East	0.09*	0.10	0.18	0.08	0.38	0.04	0.68	0.01	0.94	0.00

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

An analysis of several subsets of the data revealed some statistically significant relationships. By controlling for geographic region, it was determined that Africa Middle East and ROA had statistical significance r(3) = 0.40, p = .01. as well as Latin America on a three-year lag r(6) = 0.12, p = .10 using an alpha of 0.10.

TABLE 4 - Correlation between ESG Disclosure Scores and ROA (FY 2010 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
World	0.39	0.00	0.96	0.00	0.92	0.00	0.95	0.00	0.99	0.00
North America	0.33	0.00	0.97	0.00	0.87	0.00	0.98	0.00	0.95	0.00
Asia - Pacific Rim	0.5	0.00	0.42	0.00	0.37	0.00	0.26	0.01	0.45	0.00
Europe	0.9	0.00	0.94	0.00	0.55	0.00	0.28	0.01	0.29	0.00
Latin America	0.4	0.02	0.28	0.03	0.16	0.06	0.10*	0.12	0.04**	0.00
Africa - Middle East	<0.01***	0.35	<0.01***	0.41	<0.01***	0.43	0.01***	0.46	0.05**	0.00

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

Statistical significance between ESG and ROE was identified for two regions of the world. Asia Pacific Rim and ROE $r(50) = 0.11$, $p = .04$ was determined to have a statistically significant relationship for all lags using an alpha of 0.05. Africa and Middle East had a significant relationship through the three year lag $r(3) = 0.19$, $p = 0.05$.

TABLE 5 - Correlation between ESG Disclosure Scores and ROE (FY 2010 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
World	0.74	0.00	0.75	0.00	0.7	0.00	0.64	0.00	0.6	0.00
North America	0.77	0.00	0.64	0.00	0.61	0.00	0.79	0.00	0.84	0.00
Asia - Pacific Rim	0.05**	0.01	0.07*	0.01	0.04**	0.02	0.02**	0.04	<0.01***	0.09
Europe	0.75	0.00	0.8	0.00	0.18	0.01	0.15	0.02	0.13	0.00
Latin America	0.20	0.03	0.12	0.06	0.11	0.08	0.09*	0.13	0.05**	0.00
Africa - Middle East	0.01***	0.21	0.03**	0.19	0.07*	0.17	0.09*	0.20	0.18	0.21

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The scope of ESG scores has expanded since Bloomberg began reporting in 2006. For the sample in this study, only 71 of the 243 companies in the sample had ESG scores for the years 2006-2009 which made it possible to conduct an extended-lag analysis for a seven, eight, nine, and ten-year lag. The results show statistical significance existed for all three variables on an eight-year lag $r(67) = 0.03$, $p = .01$, a ROA for a seven-year and nine-year lag, $r(67) = .03$, $p < 0.01$.

TABLE 6 - Extended-Lag Correlation between ESG Disclosure Scores and Financial Metrics (FY 2006 - FY 2016)

	7 year lag		*8 year lag*		*9 year lag*		*10 year lag*	
	p-value	*r^2*	*p-value*	*r^2*	*p-value*	*r^2*	*p-value*	*r^2*
EBITDA	.08*	0.01	<0.01***	0.03	0.26	0.01	0.16	0.03
ROA	<0.01***	0.02	<0.01***	0.06	<0.01***	0.04	0.08	0.05
ROE	0.06	0.00	.01***	0.02	0.24	0.01	0.49	0.00

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

Companies were categorized as either long-term oriented or short-term oriented and single variable regressions were run on each subset. The same was done for categorizing countries as either individualist or collectivist. The results show that these categorizations had no impact on the relationship between EBITDA and ESG scores.

TABLE 7 - Correlation between ESG Disclosure Scores and EBITDA using Hofstede (2011) Cultural Dimensions (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	*r^2*	*p-value*	*r^2*	*p-value*	*r^2*	*p-value*	*r^2*	*p-value*	*r^2*
Long-term oriented	0.3	0.00	0.21	0.01	0.11	0.02	0.13	0.02	0.11	0.03
Short-term oriented	0.96	0.00	0.91	0.00	0.74	0.00	0.79	0.00	0.54	0.00
Individualist	0.14	0.00	0.11	0.01	0.13	0.01	0.6	0.00	0.83	0.00
Collectivist	0.72	0.00	0.95	0.00	0.27	0.01	0.29	0.01	0.34	0.02

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

Using this same structure for analyzing ROA and ESG scores, only long-term oriented countries resulted in statistical significance r (61) = 0.04, p = .04. This means that in long-term oriented countries, such as Japan, China, Russia, and Germany, a relationship exists between these variables.

TABLE 8 - Correlation between ESG Disclosure Scores and ROA using Hofstede (2011) Cultural Dimensions (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
Long-term oriented	0.81	0.00	0.75	0.00	0.41	0.00	0.25	0.01	0.08*	0.04
Short-term oriented	0.03**	0.01	0.15	0.01	0.30	0.00	0.38	0.00	0.55	0.00
Individualist	0.17	0.00	0.67	0.00	0.8	0.00	0.78	0.00	0.8	0.00
Collectivist	0.26	0.01	0.24	0.01	0.17	0.02	0.34	0.01	0.61	0.00

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The correlation between ROE and ESG scores were testing using Hofstede's categorizations. Statistical significance was found for LTO countries at the two through four-year lag periods r (47) = 0.05, p = 0.04. This means that in countries such as Hong Kong, South Korea, and Colombia, a relationship exists between these variables.

TABLE 9 - Correlation between ESG Disclosure Scores and ROE using Hofstede (2011) Cultural Dimensions (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
Long-term oriented	0.24	0.01	0.19	0.01	0.09*	0.02	0.05**	0.03	<0.01***	0.10
Short-term oriented	0.18	0.00	0.45	0.00	0.6	0.00	0.57	0.00	0.62	0.00
Individualist	0.38	0.00	0.95	0.00	0.87	0.00	0.89	0.00	1.00	0.00
Collectivist	0.48	0.00	0.47	0.00	0.42	0.01	0.44	0.01	0.55	0.01

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The sample was separated into three subsets based on where the home country was a developed, developing, or BRIC nation. Status as a developed or developing nation was obtained from OECD categorizations. BRIC is an acronym that stands for the nations of Brazil, Russia, India, and China. Goldman Sachs identified these countries as the four most influential emerging markets in the world economy (Mielniczuk, 2013).

Table 10 shows the correlation between EBITDA and ESG scores for these three categorizations. There was no statistical significance found in this analysis of the data.

TABLE 10 - Correlation between ESG Disclosure Scores and EBITDA in Developed vs Developing Economies (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
Developed	0.32	0.00	0.22	0.00	0.21	0.00	0.67	0.00	0.73	0.00
Emerging	0.57	0.00	0.68	0.00	0.69	0.00	0.58	0.01	0.68	0.01
BRIC Nations	0.55	0.00	0.83	0.00	0.46	0.00	0.42	0.01	0.45	0.01

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

A second regression analysis was conducted to test for a correlation between ESG scores and ROA using these three categorizations. Table 11 displays the results of this analysis and shows that statistical significance exists in emerging economies for one and two-year lags at the 95% confidence interval. This analysis on emerging economies shows a larger effect size ($r^2 = 0.12$).

TABLE 11 - Correlation between ESG Disclosure Scores and ROA in Developed vs Developing Economies (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
Developed	0.2	0.00	0.65	0.00	0.68	0.00	0.57	0.00	0.41	0.00
Emerging	0.01***	0.09	0.01***	0.12	0.05**	0.08	0.14	0.06	0.64	0.01
BRIC Nations	0.15	0.01	0.38	0.00	0.47	0.00	0.62	0.00	0.98	0.00

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

A regression was also conducted on ESG scores and ROE in these categories. Table 12 displays the results of this analysis and shows that statistical significance exists only in emerging economies on a same-year through three-year lag.

TABLE 12 - Correlation between ESG Disclosure Scores and ROE in Developed vs Developing Economies (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
Developed	0.43	0.00	0.88	0.00	0.89	0.00	0.99	0.00	0.98	0.00
Emerging	0.01***	0.08	0.02**	0.09	0.06*	0.07	0.09*	0.08	0.29	0.05
BRIC Nations	0.74	0.00	0.58	0.00	0.51	0.00	0.39	0.01	0.13	0.03

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The wide variance in asset ownership by the firms listed in Platt's top 250 allowed for an analysis of the variables by asset class. The difference between the largest firm (Petro China Company with $388 billion assets) and smallest firm (Tourmaline Oil Company with $5 billion assets) was $380 billion. The firms were categorized into five asset classes and tested for significance with each of the financial metrics. Twenty three firms had $100 billion to $400 billion, thirty-one firms had $50 billion to $100 billion in assets, fifty-two firms had $25 billion to $50 billion, eighty-six firms had $10 billion to $25 billion, and forty-nine firms had less than $10 billion in assets. This difference in asset ownership allowed for an analysis to see if CSR efforts yielded different results for large, medium, or smaller firms. The results show that for the largest firms, a statistical significance was found on a four-year lag $r(22) = 0.23$, $p < 0.01$. These results indicate that 23% of the variance in return on equity can be explained by large firms ($100-$400 billion) CSR efforts.

TABLE 13 - Correlation between ESG Disclosure Scores and ROE based on asset class (FY 2010 - FY 2015)

	Same Year		*1 year lag*		*2 year lag*		*3 year lag*		*4 year lag*	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
$5 billion to $10 billion in assets	0.76	0.00	0.50	0.00	0.37	0.01	0.84	0.00	0.87	0.00
$10 billion to $25 billion in assets	0.43	0.00	0.82	0.00	0.95	0.00	0.84	0.00	0.51	0.00
$25 billion to $50 billion in assets	0.45	0.00	0.28	0.01	0.74	0.00	0.57	0.00	0.31	0.01
$50 billion to $100 billion in assets	0.04*	0.03	0.15	0.02	0.23	0.01	0.29	0.02	0.30	0.02
$100 to $400 billion in assets	0.46	0.00	0.48	0.01	0.93	0.00	0.58	0.01	<0.01***	0.23

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The same methodology was performed on ROA but no statistical significance was found in the relationship between the variables.

TABLE 14 - Correlation between ESG Disclosure Scores and ROA based on asset class (FY 2010 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
$5 billion to $10 billion in assets	0.93	0.00	0.60	0.00	0.42	0.01	0.89	0.00	0.79	0.00
$10 billion to $25 billion in assets	0.11	0.01	0.33	0.00	0.46	0.00	0.36	0.01	0.19	0.02
$25 billion to $50 billion in assets	0.96	0.00	0.48	0.00	0.65	0.00	0.55	0.00	0.33	0.01
$50 billion to $100 billion in assets	0.09*	0.02	0.18	0.01	0.23	0.01	0.30	0.01	0.41	0.01
$100 to $400 billion in assets	0.82	0.00	0.90	0.00	0.59	0.00	0.33	0.02	0.16	0.05

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The financial metric of EBIDTA yielded the most significant results when analyzing the sample for asset class. At the two through four-year lags, a relationship was identified for the smallest firms ($5-$10 billion) r (48) = 0.05, p = .06. Other relationships yielded significant p-values with limited effect sizes (0.01 to 0.03).

TABLE 15 - Correlation between ESG Disclosure Scores and EBITDA based on asset class (FY 2010 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2	*p-value*	r^2
$5 billion to $10 billion in assets	0.32	0.01	0.23	0.01	0.08*	0.03	0.05**	0.05	0.05**	0.08
$10 billion to $25 billion in assets	0.27	0.00	0.10*	0.01	0.06*	0.02	0.30	0.01	0.68	0.00
$25 billion to $50 billion in assets	0.23	0.01	0.41	0.00	0.40	0.00	0.44	0.00	0.75	0.00
$50 billion to $100 billion in assets	0.04**	0.03	0.06*	0.03	0.11	0.03	0.32	0.01	0.63	0.00
$100 to $400 billion in assets	0.80	0.00	0.89	0.00	0.97	0.00	0.77	0.00	0.65	0.01

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

A final analysis was run on the variables by using Platt's Top 250 energy sub-sector classifications. The sample included firms in the sub-sectors of electric utilities (78), gas utilities (12), independent power producers (13), integrated oil and gas (25), multi-utilities (18), oil and gas storage and transportation (11), and marketing and refining (12). Results of the analysis show statistical significance of ESG scores and EBITDA for gas utilities r (11) = 0.17, p < 0.01 and multi-utilities r (17) = 0.22, p < 0.01.

TABLE 16 - Correlation between ESG Disclosure Scores and EBITDA based on energy sector (FY 2006 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	p-value	r^2	p-value	r^2	p-value	r^2	p-value	r^2
Electric Utilities	0.15	0.00	0.07*	0.01	0.06*	0.01	0.29	0.01	0.72	0.00
Gas Utilities	<.001***	0.17	<.001***	0.16	<.001***	0.16	<.001***	0.18	0.02**	0.19
Independent Power Producers	0.06*	0.05	0.04**	0.07	0.05**	0.08	0.06*	0.10	0.07*	0.14
Integrated Oil and Gas	0.28	0.01	0.20	0.01	0.08*	0.03	0.15	0.03	0.26	0.03
Multi-utilities	<.001***	0.22	<.001***	0.23	<.001***	0.23	<.001***	0.21	0.01***	0.18
Oil & Gas Storage and Transportation	0.02**	0.08	0.10	0.06	0.23	0.04	0.35	0.03	0.43	0.03
Refining and Marketing	0.06*	0.05	0.02**	0.08	0.02**	0.10	0.06*	0.10	0.11	0.11

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

The analysis by sub-sector also yielded statistically significance relationships with ROA and ESG scores for independent power producers r (12) = 0.39, $p < 0.01$ and oil and gas storage and transportation r (10) = 0.22, $p < 0.01$. These results show the largest effect size of 22% and 39% at an alpha level 0.01 of all the analyses run in this study.

TABLE 17 - Correlation between ESG Disclosure Scores and ROA based on energy sector (FY 2010 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	p-value	r^2	p-value	r^2	p-value	r^2	p-value	r^2
Electric Utilities	0.17	0.00	0.56	0.00	0.70	0.00	0.53	0.00	0.36	0.01
Gas Utilities	0.34	0.01	0.43	0.01	0.64	0.00	0.77	0.00	0.82	0.00
Independent Power Producers	<0.01***	0.13	<0.01***	0.17	<0.01***	0.14	<0.01***	0.24	<0.01***	0.39
Integrated Oil and Gas	0.53	0.00	0.54	0.00	0.42	0.01	0.40	0.01	0.35	0.02
Multi-utilities	0.08*	0.03	0.12	0.03	0.11	0.04	0.22	0.03	0.25	0.04
Oil & Gas Storage and Transportation	0.02**	0.08	<0.01***	0.21	<0.01***	0.24	<0.01***	0.22	0.05**	0.20
Refining and Marketing	0.42	0.01	0.24	0.02	0.50	0.01	0.99	0.00	0.67	0.01

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

Similarly, relationships were found between the variables for ROE for the same sub-sectors resulting in independent power producers r (12) = 0.32, $p < 0.01$ and oil and gas storage and transportation r (10) = 0.18, $p < 0.01$.

TABLE 18 - Correlation between ESG Disclosure Scores and ROE based on energy sector (FY 2010 - FY 2015)

	Same Year		1 year lag		2 year lag		3 year lag		4 year lag	
	p-value	r^2	p-value	r^2	p-value	r^2	p-value	r^2	p-value	r^2
Electric Utilities	0.20	0.00	0.55	0.00	0.79	0.00	0.77	0.00	0.78	0.00
Gas Utilities	0.63	0.00	0.65	0.00	0.67	0.00	0.58	0.01	0.60	0.01
Independent Power Producers	0.06*	0.05	0.04**	0.07	0.14	0.05	0.02**	0.14	<0.01***	0.32
Integrated Oil and Gas	0.35	0.01	0.28	0.01	0.15	0.02	0.13	0.03	0.08*	0.06
Multi-utilities	<0.01***	0.08	<0.01***	0.08	0.01***	0.10	0.01***	0.13	0.01***	0.18
Oil & Gas Storage and Transportation	0.68	0.00	0.77	0.00	0.88	0.00	0.95	0.00	0.77	0.01
Refining and Marketing	0.01***	0.08	0.03**	0.08	0.26	0.03	0.39	0.02	0.28	0.05

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

To test for the relationship that the combined variables had on the financial outcomes, a multi-variable regression analysis was conducted. The results show that context such cultural factors and the characterization of the economy of the home country as well as the subsector of the firm impact financial performance. However, when taken together, ESG disclosure scores did not have a significant relationship on the entire sample.

TABLE 19 - Multivariable Regression between ESG Disclosure Scores, Country Characteristics, and Financial Performance (FY 2010 - FY 2015)

	ROA		*ROE*		*EBITDA*	
	t-stat	*p-value*	*t-stat*	*p-value*	*t-stat*	*p-value*
ESG	0.48	0.63	1.71	0.09*	-0.49	0.62
Developed vs Emerging	-3.09	0.00***	-4.28	0.00***	-1.85	0.07*
Energy sub-sector	2.19	0.03**	2.40	0.02**	-12.14	0.00***
Collective vs Individual	-4.82	0.00***	-4.31	0.00***	1.43	0.15
Long-term vs Short-term	-3.14	0.00***	-6.22	0.00***	-4.83	0.00***

*, **, and *** denote statistical significance at 10%, 5%, and 1% respectively

Confounding Variables and Limitations of Findings

Several limitations were inherent in the research methodology and sample of this investigation. Other confounding variables influenced the data that could limit the implications of this study. These factors include the generalizability of the findings beyond the energy sector, the limited sample size of some data subsets, home country as a basis for cultural analysis, market influencing factors specific to the energy sector, and the influence of the 2008 financial crisis on the findings of the extended-lag analysis. These themes are explored in the following sections.

This study investigated the impact of CSR on financial results of firms operating within the energy sector, so the findings in the subsets that show statistical significance exists have limited generalizability beyond this sector. The sample for this research was limited to established firms in traditional energy production and as a result the findings would have limited implications for firms operating in the emerging energy sub-sectors of solar, wind, hydro, and biomass energy production. Furthermore, the firms studied in this research had global operations, so generalizing the findings to firms operating completely within the national confines of a single state would be not advisable. MNC's have the financial resources to invest in CSR activities and disclose their outcomes whereas a smaller firm would be limited in this regard (Baumann-Pauly, Wickert, Spence, & Scherer, 2013). Firms in this study were all publicly traded companies, a sample which limits generalizability to private firms within the energy sector.

The sample size of some subsets was not adequate for realistic conclusions to be drawn. Too small of a sample limits the degrees of freedom and can increase the risk for a type I research error (Hanley, 2016). For example, Africa and Middle East as a subset resulted in statistical significance for all three financial metrics. In particular, return on assets had an effect size of 46%. This means that almost half of the variance in ROA for firms in Africa and Middle East is explained by their ESG disclosure score. In reality this is likely not the case, but rather the impact of a small sample size. Similarly, Latin America had a subset sample size of eight firms. No statistical significance was identified for firms in this region, but again the sample size should not lead us to reject the null hypothesis outright. The small sample size of Latin America increases the risk of committing a type II error (rejecting the null inappropriately).

The ESG disclosure scores used in this study provide a single rating for firms that operate in several countries. Research shows that MNC's respond to demands of stakeholders unique to each country in which they operate (Nemetz, 2015). Moreover, developed countries have a greater influence on CSR decisions of MNC's and they diffuse these practices to their operations in less developed countries (Jamali, 2010). As a result, this study is limited in that the influence of CSR on financial results cannot be determined by region or country in which a firm operates. The various contexts for a MNC would influence their CSR decisions and could be highly weighted by one country and much less by another country in which they operate. In summary, because the ESG disclosure score is an aggregate rating, it inhibits the ability to more accurately analyze the results.

The financial metrics of this study were shown to be influenced by CSR efforts, but they are also heavily influenced by confounding variables. Financial performance of public firms in the global energy markets are also heavily influenced by indiscriminate investor sentiments, hedging and arbitrage practices characterized by securities trading, volatility in commodities markets, and even global weather patterns (Ding, Liu, Zhang, & Long, 2017; Chau, Kuo, & Shi, 2015; Sadorsky, 2011; Berman, 2006). These variables limit the effect size of CSR influence on financial performance of firms within this industry.

An extended lag analysis found statistical significance for eight and nine year periods. The most immediate explanation for this relationship is that CSR efforts take time to translate into financial outcomes. However, this explanation and needs to be contextualized in light of a considerable confounding variable. The eight and nine-year period for this study would include the years 2007, 2008, and 2009. The financial impact of this market volatility was both profound and ubiquitous to firms in the energy sector (Nazlioglu, Soytas, & Gupta, 2015). Did this market transition either change the behaviors of firm during this time, how did it affect profitability, and what impact did it have on ESG reporting for these firms? Exploring these specific topics is beyond the scope of this work but it needs to be investigated if more key learnings are to be gleaned from this essential moment in financial history. The 2008 financial crisis simultaneously serves as a confounding variable for this study and an area for future research.

A much more influencing set of moderating variables also needs to be explored. These variables include other influencing factors of the home country (corruption, rule of law, and number of government regulations), the difference in approaches to CSR by male and female leadership on senior management team, overall business strategy and core competencies of each organization, and employee influence on CSR endeavors. Each of these moderating variables will be explored in more depth in the discussion section of this paper.

Summary of Findings

The sample studied in this research was analyzed using two approaches – contextual factors and firm characteristics. The contextual factors were based on the home country where each company's firm was located (region of the world, cultural characteristics, classification of the economy) and the firm characteristics were based on asset class and energy sub-sectors. The results indicate that the make-up of the firm influences the relationship between ESG disclosure scores and financial performance more than do the contextual factors of the home country for each company.

Finally, given the theoretical framework of the research design, it is also imperative to contextualize the findings within the stakeholder versus shareholder theory debate. This research study provides evidence that firms within the energy sector are responding to the various stakeholder needs because of the absence of consistent financial incentives to engage in CSR. This subject will be explored in more depth in the discussion section of this paper.

Chapter 5

Discussion

This research investigated the relationship between CSR efforts and financial performance metrics. The results demonstrated that a limited relationship exists between these variables in a broad sense, but when examined by firm characteristics some significant relationships were identified. In short, the goal of this research was partly achieved. Based on this conclusion, the findings need to be discussed in relation to managerial motivation, practical implications for management, the context of stakeholder theory, moderating variables, and areas for future research. This last chapter addresses these aspects of the research question.

Because extant research showed mixed results on the correlation between CSR and financial performance, it was necessary to conduct additional investigations of the relationship between these variables. This study adds to the body of knowledge by contextualizing research in the global energy sector, and the conclusion can be drawn that a limited relationship exists within this specific industry. Even within the subsets of analysis that demonstrated a relationship does exist, such as the case for return on equity in LTO cultures, CSR efforts only account for four to seven percent in the variance of financial performance. Nemetz (2015) showed that corporations indeed are responding to stakeholder expectations but from the findings of this study we can conclude in part that managers are responding to stakeholder expectations regarding CSR for reasons other than financial. The following section attempts to address this notion by exploring the practical implications of the research.

Significance of the Research: Practical Implications

The direct impact of CSR on financial results was not proven conclusively in this study. However, managers of global firms continue to communicate CSR efforts via voluntary disclosure methods at increasing rates (Yusoff, Mohamad, & Darus, 2013). Despite the limited effect size of CSR on financial performance, several reasons exist for managers to disclosure their CSR efforts. This section draws on current literature to outline what might motivate a manager to engage in CSR efforts in the absence of empirical evidence suggesting financial performance will be affected and concludes with an exploration of what implications exist for managers as they respond to the various stakeholder demands.

Managerial Motivations

This research project draws heavily upon the assumption that managers are predominantly motivated by financial incentives. The implications that stem from this assumption are simple. This research concluded that in some circumstances, there is a positive financial result of CSR efforts and therefore managers should (and will) respond to this outcome by reinforcing their previous behavioral patterns. In other situations, this research shows that there is no connection between managerial efforts towards CSR and financial outcomes. Therefore, they should dismiss these CSR efforts as wasteful or irrelevant to organizational strategy. What makes this research work relevant (presumably) is the context of managerial motivation towards this end. However, the heterogeneous and immensely complex nature of managerial motivation needs academic consideration when drawing conclusions from the findings of this research. In short, managers are motivated by a plethora of factors, and financial incentive alone does not explain the entirety of their behavior. This section reviews financial incentives that drive manager behavior, acknowledges the contextual factors that also contribute to motivation, and finally explores the research on what specific motivations might oblige a manager to engage in CSR behaviors.

Managerial motivation is a heavily researched field and has drawn much attention in the academic conversation since publication of seminal works such as Maslow's (1943) hierarchy of needs, McClelland's (1961) need theory, Adams' (1963) equity theory, Vroom's (1964) expectancy theory, Herzberg's (1968) two-factor theory, and Alderfer's (1972) ERG theory.

These works are theory-based explanations for how managers behave. Since their publication, academic researchers have affirmed, criticized, amended, drawn conflicting conclusions, conducted meta-analyses, added to the theoretical understanding of the precepts, found praxis-based applications thereof, and in some cases even dismissed them altogether (Newstrom, 2011).

What is clear from the conclusions drawn in this field, however, is that managers respond to both the financial incentives assumed in this research project and to other contextual factors. Research shows a motivational response to financial incentives that are tied to performance, which include a desire for increased salary, increased value of stock options, promotion, end-of-the-year bonuses, fringe benefits, peer recognition, and improved industry reputation (Mclean, Smits, & Tanner, 1996; Wyld & Maurin, 2011; Ederhof, 2011; Anderson, Dekker, & Sedatole, 2010; Ololube, Nwokolo, Onyekwere, & Kpolovie, 2013; Broughton, 1986; Corona & Randhawa, 2010). CSR efforts that lead to positive financial performance of the organization would contribute to managerial motivation to the degree that it impacts these various financial outcomes for the manager.

Contextual factors have also been found to heavily influence managerial motivation. These factors include opportunities for advancement, a congenial work environment, recognition of individual accomplishments, freedom for creativity, attractive fringe benefits, job security, geographic location of workplace, opportunity to influence organizational policies, work environments categorized by fair practices, timely and relevant feedback on performance is given, and the presence of a competent senior management team (Chattopadhyay & Choudhury, 2017; Davidson, Graham, Montross-Thomas, Norcross, & Zerbi, 2017; Tadic Vujcic, Oerlemans, & Bakker, 2017; Akremi, Sassi, & Bouzidi, 2009; Kwon & Rupp, 2013; Chang, Huang, & Choi, 2012; Reilly, & Phaneuf, 2011; O'Leary & Mortensen, 2010; Wright & Baker, 2005; Seifert, Brockner, Bianchi, & Moon, 2016; Bracken & Church, 2013; Grilli, Lega, Calciolari, & Prenestini, 2015).

We can distill the extant research down to two assumptions in that managers respond to both financial and contextual factors. Given these constructs, a deeper understanding can be garnered as to why a manager might be motivated to engage in CSR activities, both in cases where a relationship exists between financial outcomes and behavior and where one does not exist. An additional limitation deserves notation prior to engaging in this discussion. The global context of this research must be considered vis-à-vis Hofstede’s cultural dimensions. Managers will be motivated by their cultural context in varying ways and thus motivation to engage in CSR efforts will vary accordingly. Exploring the impact of all of Hofstede’s cultural dimensions is beyond the scope of this work, but should be noted as a limitation of the study, and thus a grounding factor in generalizing the findings.

Ditlev-Simonson and Midttun (2011) conducted a study and found that the public perception of managerial motivation was that efforts to engage in CSR activities came from a desire to improve brand image and maximize shareholder value. Engaging in CSR as an ethical obligation was perceived as the least salient motivation. This ostensible perception is an important reality for organizations to understand, but does not necessarily provide insights into the *de facto* motivations for managers. Borghesi, Houston, and Naranjo (2014) found that larger firms with substantially higher cash flows and advertising budgets engaged in CSR efforts more often than smaller firms. Further, they offer that because no financial benefits were gleaned from these efforts, the motivation was more intrinsic. The empirical research on CSR and manager supports several endogenous explanations for why managers would be compelled to engage in CSR efforts. These include CSR's moderating effect on work flow, employee satisfaction that has a reflective effect on managerial motivation, and more simply, altruism. In the same way that financial and contextual motivations cannot fully explain managerial behavior, neither can these intrinsic elements. They can nonetheless, provide insights into what might drive some managers, or influence their decision-making frameworks as they negotiate the complexities of the internal and external environments.

A recent contribution to workplace motivation literature is Csikszentmihalyi's (1990) definition of work flow. His empirical work concluded that individuals are motivated when their intellectual abilities are matched with the challenges of the work they are engaged in. If the individual perceives the work to be too hard or too easy they will lack motivation. Similarly, if their skillset far exceeds or lacks relative to the work challenges, they will become disengaged. Matuseviche and Molnar (2017) researched CSR's impact as a moderating variable in these perceptions and found that some managers could not attain a state of work flow if their efforts were not contextualized in a CSR framework. This moderating role of CSR is a one explanation for why some managers would engage in CSR activities despite the lack of financial incentives. Csikszentmihalyi (1990) concluded that not only does work flow motivate, but that individuals will continue to seek work flow by changing workplace conditions or improve their skill set in order to attain it. This understanding, along with the notion that CSR must be present in the contextual environment for some managers explains in part the attitude towards CSR efforts.

A second explanation for why managers would be motivated to engage in CSR efforts is that a CSR orientation of the firm leads to higher employee satisfaction, which has indirect influence on managerial motivation. Bauman & Skitka. (2012) offer that the presence of CSR leads to higher feelings of safety and security for employees which results in a higher commitment to the organization and a decrease in counterproductive workplace behaviors. This higher sense of belonging motivates employees to engage in extra-role behaviors and a higher sense of life satisfaction and emotional well-being. The impact of CSR on employee motivation leads to direct organizational outcomes such as higher customer service ratings, lower turnover, and public reputation (sourcing). Notwithstanding these performance outcomes of the firm, employee satisfaction can also lead to higher levels of satisfaction among senior-level managers (Decramer, Smolders,

& Vanderstraeten, 2012). This research shows that something beyond financial outcomes can beget motivation to be a CSR-oriented manager.

A final explanation for managerial motivation is altruism. An interpretation of this notion of altruism has been articulated as "shared value." Shared value is an emerging concept in both research and practice that aligns financial success of the firm within the context of social progress (Deakin & Hobbs, 2007). Porter and Kramer (2011) offer a conceptual framework for this shared value orientation of the firm. "Capitalism is under siege. Diminished trust in business is causing political leaders to set policies that sap growth, [and] business is caught in a vicious cycle. The purpose of the corporation must be redefined around creating shared value" (p. 48). This construct of shared value is a reaction to the traditional dichotomy that highlights the tradeoffs between business efficiency and societal interests.

For example, a common criticism against shareholder theory is that private transactions do not account for all of the costs associated with the exchange, such as pollution and resource depletion (DeJardin, 2011). Addressing these external costs to the public, known as externalities, are a primary focus for the shared vision approach. "The concept of shared value, in contrast, recognizes that societal needs, not just conventional economic needs, define markets" (Porter & Kramer, 2011, p. 50). To created shared value between business and society, Porter and Kramer (2011) offer three fundamental changes to the traditional business-social tradeoff model. Products and services must be reconceived, productivity in the value chain must be redefined, and supportive industries must be built at company locations.

A case study of an oil firm in Angola describes a scenario whereby altruism was the motivating factor of the parent French company to improve the environmental standards of the refinery in their third-world counterpart (García- Rodríguez, García-Rodríguez, Castilla- Gutiérrez, & Major, 2013). The results of this case study are not generalizable, but it is one example of how altruism can motivate CSR efforts from altruistic means. An empirical study conducted by Jha and Cox (2015) discovered that CSR engagement was higher for firms located in regions with higher levels of social capital. Social capital has been characterized as a proxy for altruistic attitudes within society and defined as “[the] sum of the actual and potential resources that can be mobilized through membership in social networks of actors and organizations" (Anheier, Gerhards, & Romo, 1995, p. 862). Abaeian, Yeoh, and Khong (2014) conducted a qualitative study of managers’ attitudes towards CSR and found that personal values contributed a large part to CSR behaviors. Research also concludes that religiosity is a personal trait has also been attributed with higher levels of CSR activities (Brammer, Williams, & Zinkin, 2007; McGuire, Newton, Omer, & Sharp, 2012). These characteristics reflect the presence of autotelic personality traits which compel managers to act in ways that are intrinsically motivating because of their curiosity, persistence, and humility (Fullagar & Kelloway, 2009; Csikszentmihalyi & Nakamura, 2011). One final commentary on the altruism explanation needs to be explored. If this element explains managerial attitude towards CSR, why was it not always present? If altruism is a motivating factor, then either CSR should have been a part of business practice from the beginning or something in the social context has awakened this awareness or compellation. This criticism represents an unexplored field for future research if the antecedents of CSR motivations are to be more fully understood.

Managerial Implications

Several managerial implications can be drawn from the findings of this research. At the most pragmatic level, a MNE in the energy sector considering international expansion should consider either a greenfield or brownfield project in a country with an emerging economy that is characterized by a long-term oriented culture. The firm should expect, *ceteris paribus*, a three to ten percent increase in return on equity if they engage in the appropriate level of CSR in this Foreign Direct Investment (FDI) strategy. A caveat must also be acknowledged in regard to such a strategy – other factors must go into the decision-making framework on which country is right for expansion. Due diligence on country selection should include the overall project IRR, tax structure, level of government regulations, cost of the factors of production, corruption levels, strategic fit to the organization, vetting of alliances or partnerships needed to execute the project, barriers to communication, and myriad other factors.

Additionally, firms within the subsectors of the energy industry such as independent power producers, multi-utilities, and gas utilities can benefit from understanding the relationship between their CSR efforts and the financial outcomes discovered in this project. Between eighteen and thirty-nine percent of the variance in their financial performance can be explained by their CSR efforts. Managers within this sector who can isolate the source of this connection can continue to improve their competitive position within the industry.

More broadly, managerial practice can benefit from integration of CSR at all levels of the organization. Whether motivated by financial outcomes, contextual, or intrinsic factors, a practitioner can integrate CSR into the various areas of business operation. The following section outlines considerations from empirical research for management as they incorporate CSR into accounting processes, financial management, supply chain processes, marketing decisions, and public relations.

The practice of accounting has traditionally been classified to report the financial position of an organization, and represents a series of market exchanges (Christie, Dyck, Morrill, & Stewart, 2013). However, in recent decades organizations have employed a new approach to accounting known as social and environmental accounting (SEA) which reports non-financial measures of the organization that reflect the engagement of the firm with the social and environmental factors that they interact with (Nikolaou & Evangelinos, 2010). Christie et. Al (2013) offer that ""conventional accounting, built upon specific value-laden assumptions, reinforces the existing power structures, morality, and ethical conventions of society" (p. 386). In contrast to traditional accounting practice, this "balanced scorecard" or "triple bottom line" approach not only creates more transparency for outside stakeholder groups, it also can motivate internal stakeholder groups and aide in changing a culture (Gibbons & Kaplan, 2015). A comprehension adoption of CSR strategy includes not only the impactful behaviors themselves, but a transparent reporting of these activities.

Closely related to the accounting processes, CSR engagement can also impact the financial position of public firms vis-a-vis investor perceptions. The concept of socially responsible investing (SRI) introduces a new construct for CFO's to consider as they make financial decisions as investors analyze the social engagement of firms in addition to their financial health (Berry & Junkus, 2013). SRI entails ‘‘integrating personal values and societal concerns with investment decisions’’ (Schueth 2003, p. 190). Investors utilizing an SRI approach are motivated by several factors which include supporting social causes, protecting the environment, and enhancing overall corporate governance (Statman, 2000). Given the volatile nature of stock markets and investor sentiments, understanding the impact of CSR on investment strategies can help a manager improve the perception of their public firm.

The practice of supply chain management has been considered the backbone of business practice and represent a significant opportunity for cost-saving practices if done efficiently (McPhee & Wheeler, 2006). A new focus has begun however within this field whereby sustainable means of sourcing supplies is paramount, and finding efficient transaction opportunities is key (Mollenkopf, Stolze, Tate, & Ueltschy, 2010; Lamberton, 2005; Carter & Rogers, 2008). "As managers of supply chains become better versed in the language of making a business case for change and also in the language of sustainability, they are getting better at suggesting smart improvements in operations, logistics and sourcing that can be environmentally innovative and present real cost savings" (Hopkins, 2010, p. 65). Best practice for CSR-oriented firms now includes ensuring that sourcing of supplies and shipping of products is done in-line with stakeholder expectations of efficiency and environmentally sound practice (D'heur, 2015).

Considerable research has been performed on the impact of CSR on customer perceptions, expectations, and responses (Youn & Kim, 2008). For example, when customers perceive that firms are engaging in CSR efforts, the customer begin to engage in extra-role behaviors such as defending the company's products and reputation, as well as suggesting edits to business operations or product offerings (Karaosmanoglu, Altinigne, & Isiksal, 2016). This effect on customers can yield indirect returns for the company that include customer loyalty, positive word-of-mouth advertising, and innovative business practices that stem from stakeholders served by the company. The electronic marketing presence of a firm benefits directly from these efforts. For example, higher levels of CSR activity lead to increased engagement of customers on a firms social network sites, improve the likelihood that customers will invite their contacts to engage the company (Jeong, Paek, & Lee, 2013). This increased engagement can improve the return on investment for branding efforts as well as increase the possibility of viral marketing. Many of the firms in this study can benefit from this understanding because they have end-use products and brand names that are followed, enhanced, and marketed via social media outlets.

Finally, practical implications abound for public relations of the firm. Research shows that CSR efforts positively impact corporate reputation (Dögl & Holtbrügge, 2013). As a result, some managers engage in a practice known as greenwashing, whereby they project a positive image of their company under the banner of CSR without substantial or meaningful efforts towards actual sustainability (Parguel, Benoît-Moreau, & Larceneux, 2011). Greenwashing compels managers to engage in CSR disclosure for the sole purpose of bolstering public image, often to deleterious effect on the organization. This practice is considered "the intersection of two firm behaviors: poor environmental performance and positive communication about environmental performance" (Delmas & Burbano, 2011, p. 65). Examples include making exaggerated claims about the sourcing of supplies or simplified statements indicating a company is working on green technology which in truth represents a small component of their overall portfolio of business operations. When a company engages in greenwashing, several negative consequence can occur which include an erosion of consumer and employee confidence in the corporation, as well as reduction in community and government support, and even litigation for false claims (Parguel, Benoît-Moreau, & Larceneux, 2011; Stephenson, Doukas, & Shaw, 2012; Delmas & Burbano, 2011; Ekstrand, & Nilsson, 2011).

Several recommendations are made so that managers avoid the trap of greenwashing. Delmas and Burbano (2011) offer that a firm must increase transparency of environmental performance, facilitate and improve knowledge of greenwashing, and effectively align intra-firm structures, processes and incentives. Increasing transparency of environmental performance entails sharing best practices with other firms and disclosing accurate product and sourcing information. Policy makers should require annual reporting of environmental impact and verify reports with non-governmental organizations (NGOs). Facilitating knowledge about greenwashing includes utilizing media-based platforms to publicize examples of greenwashing, and creating uniform standards for reporting of sustainability efforts. Aligning firm structure and incentives includes centralizing decision making regarding environmental impact to maintain consistency, implementing standards for internal reporting of sustainability efforts, providing ethics courses for employees, eliminating perverse incentives, rewarding employees that report greenwashing, and providing negative responses for employees who engage in greenwashing.

Confirmation of Stakeholder Theory

Stakeholder theory was used as the theoretical framework for the research design. The findings therefore need to be analyzed in the context of the stakeholder versus shareholder theory debate. Do the results confirm that energy companies are employing a stakeholder approach or do their behaviors reflect the primacy of shareholder interests? Grounded in the existing literature and confirmed by the findings of this study, the case is made in this section that companies are engaging in a long-term stakeholder orientation towards CSR. This assertion can be illustrated using the following inductive syllogism:

Premise A: Firms are responding to stakeholder needs and expectations at higher rates than in previous years (Nemetz, 2015; Holt & Barkmeyer, 2012; Berchicci & King, 2007; Perez-Batres, Doh, Miller, & Pisani, 2012; Zhao, Tan, & Park, 2014; Bertels & Peloza, 2008; Janssen, Sen, & Bhattacharya, 2015).

Premise B: Limited evidence suggests that a financial incentive exists to engage in CSR (Margolis, Elfenbein, & Walsh, 2012)

Conclusion: Firms are responding to stakeholder interests for reasons other than financial interest.

Both Premise A and Premise B are supported by the findings of this study and are bolstered by the academic literature as noted. Premise A is demonstrated in the energy industry vis-à-vis the upward trend in ESG disclosure scores. The mean ESG disclosure score for firms in this study rose by 16% from 2007 (average ESG disclosure score of 30) to 2015 (average ESG disclosure score of 35). The determinants of this trend need to be explored, but the positive linear movement shows energy firms are responding at higher levels. Premise B is supported by this research because most of the correlations between CSR and financial performance yielded no statistical significance. The previous section offered several explanations for what motivates managers to engage in CSR activities voluntarily. However, research shows that a growing number of stakeholders are putting pressure on organization to practice CSR. "The impression created overall is that the debate about CSR has shifted: it is no longer about whether to make substantial commitments to CSR, but how" (Smith, 2003, p. 55). Compliance with stakeholder expectations yields positive responses and non-compliance results in both real expenses and opportunity costs. The purpose of this section is to discuss these increased pressures from stakeholders and how managers are responding.

Public awareness of CSR has increased in the last two decades as a result of the plenitude of major corporate scandals from the early 2000s, increased media coverage, emphasis in business education, academic literature on the subject, self-promotion of early adopters of CSR, catastrophic environmental disasters such as Exxon Valdez and Deepwater Horizon, the improprieties of the banking and housing industry leading up to the 2008 financial crisis, and more recently, public discourse in social media (Freeman, Wicks, & Parmar, 2004; Cahan, Chen, Chen, & Nguyen, 2015; Koljatic, & Silva, 2015;

Laplume, Sonpar, & Litz, 2008; Bhimani, Silvola, & Sivabalan, 2016; Ritchie, 2012; Balmer, Powell, & Greyser, 2011; Lindström, & Giordano, 2016; Kent, & Taylor, 2016). This increased awareness has resulted in subsequent pressures from customers, employees, investors, and social institutions within the public sector.

The term "social license" has been termed as the social contract that exists between business and the communities they affect. This informal accord between industry and outside stakeholder groups reflects an expectation of responsible behaviors of the firm (Lacey & Lamont, 2014; Zhang, Moffat, Lacey, Wang, Gonzalez, Uribe, Cui, & Dai, 2015). Social license is “a form of control mechanism that requires enterprises to meet demands and expectations that emerge from neighborhoods, environmental groups, community members and other elements of the surrounding civil society (Lynch-Wood & Williamson, 2007, 321–322). Graafland and Smid (2017) discovered that a firm's perception of this social license led to increased commitments to CSR behaviors. Effect sizes in their study were significant in that 81% of the variance in commitment to community relations and 51% of the variance in environmental decisions were explained by this perception variable. The importance of this study is that managers are responding in real ways to the stark increase in stakeholder expectations.

Previous research shows that CSR behaviors elicit a positive response from stakeholder groups and lead to improved brand image, customer relationships, higher sales, organizational reputation, higher credit ratings, and reduced employee turnover (Popoli, 2011; Cotton, 2006; Lii & Lee, 2012; Attig, El Ghoul, Guedhami, & Suh, 2013; Ho, 2012). Conversely, firms that do not comply with expectations regarding CSR can experience negative responses from stakeholders. Empirical findings show that firms perceived by stakeholders to be consistently socially irresponsible experience a litany of negative responses. These perceptions can lead to negative word-of-mouth publicity, induce customers' intention to boycott the company's products, and foster lingering negative perceptions of the firm (Lindenmeier, Schleer, & Pricl, 2012; Braunsberger & Buckler, 2011; Grappi, Romani, & Bagozzi, 2013).

This negative response is a reality for firms that are habitually irresponsible, but stakeholder backlash is heightened during corporate crises. Pearson and Clair (1998) offer that corporate crises are characterized by three elements. They must represent substantial negative financial impact to the company, be unpredictable or unplanned, and offer limited response time. Product recalls, workplace deaths, scandals, and catastrophic environmental disasters are examples of corporate crises. Empirical research suggests that crises result in a negative movement in sales revenues, employee and customer, and overall corporate reputation (Coombs & Holladay, 2002; Dawar & Pillutla, 2000; Siomkos & Kurzbard, 1994).

It is critical to note that corporate crises can happen both to firms that are socially responsible and to those that are not, and CSR can play a key role in crisis management (Janssen, Sen, & Bhattacharya, 2015). Social expectations of CSR result in increased media coverage of crises, influence public perceptions of culpability attributed to the company, raise expectations for how the firm should react, and determine the severity of the negative response. This last element represents a growing field of research in CSR literature as findings shows that previous efforts towards CSR create goodwill and can soften the negative response to crises (Godfrey, Merrill, and Hansen, 2009). For example, Minor and Morgan (2011) analyzed stock prices of firms following product recalls and found evidence that drops in stock prices were more drastic for firms not engaged in CSR. This research shows that CSR can serve either as a mitigating factor or an exacerbant to the fallout of corporate crises.

A notable catastrophic failure in the energy sector in recent years is the explosion of BP's Deepwater Horizon in 2010. The explosion killed eleven workers and the failure of the blow-out preventer allowed almost five million barrels of oil to leak into the Gulf of Mexico (Beyer, Trannum, Bakke, Hodson, & Collier, 2016). The Deepwater Horizon explosion serves as more than just anecdotal evidence for what an energy firm can do wrong. This event lead to economic turmoil for the Gulf of Mexico, ecological disaster, and material negative financial results for the company. Jennings (2010) concludes that the BP oil spill "has displaced Exxon and its Valdez as the bad poster child for oil companies" (p. 40). The costs to BP's financial position are estimated at $62 billion, (Bomey, 2016). Despite BP's payment of $10 billion to local businesses who lost revenues or property values, the disaster has had a lingering economic impact on the travel industry, fisheries, and home values in the Gulf Shore states (Gallucci, 2015). The case of BP's Deepwater Horizon failure serves as a disquieting example of how irresponsible behavior can have enormous financial costs for firms within the energy sector.

In summary, stakeholders are demanding more from business, and these expectations are being met with substantive response from managers. Compliance results in tangible benefits to the organization, but shirking, omitting, or discarding CSR as a relevant element to corporate strategy will lead to financial and social setbacks in this era of heightened awareness.

Moderating Variables

The immensely complex variance in country characteristics, differences in organizational strategies, emphasis on managerial impact on CSR, and differences between male and female leadership yield a clear set of moderating variables for this study. These factors were not included in the design of methodology because they are beyond the scope of the research question, but they need to be acknowledged for their importance and their moderating effect on the variables used in this study.

First, characteristics of the countries where firms have corporate headquarters serve as moderating variables in this study. Two of Hofstede's cultural characteristics (long-term versus short-term orientation, individualism versus collectivism) were used to test for correlations, yet there are a multitude of other cultural factors that could influence corporate performance. A major criticism of Hofstede's work is that cultural scores for each country are an aggregated number representing a wide array of divergent cultures, and as a result it is illogical to conclude that all citizens within a country live by the same cultural principles (Williamson, 2002). Furthermore, Nemetz (2015) demonstrated that stakeholders from different countries have vary expectations in relation to CSR behaviors of the firms headquartered in their country. In addition to the myriad of cultural differences, levels of corruption and number of government regulations vary by nation which impacts CSR expectations and firm response.

Corruption is an important moderating variable to acknowledge because the impact it can have on financial performance. Research shows that corruption influences FDI inflows as well as the overall economic activity of a nation (Hossain, 2016; Ahmad

& Arjumand, 2016). These factors have been shown to impact firm decisions regarding both headquarter location and subsidiary expansion (Azmat & Zutshi, 2012; Iloie, 2015). Moreover, economic growth fuels demand for more energy which can lead to improved financial performance (Kammen & Kirubi, 2008). Corruption serves as an important moderating variable as a country characteristic, but just as important to acknowledge is firm response to corruption. Costa (2008) concluded in his study on oil and gas companies that a strong code of ethics with emphasis on CSR can mitigate corruption by limiting bribery and kickbacks, curbing inappropriate political contributions, and increasing financial transparency. A content analysis of each firm's code of conduct would be necessary to understand how firm response to corruption might be measured. The presence of corruption and firm response to corruption would impact both CSR expectations and financial results as a moderating variable.

A second component to the country characteristics is the variance of regulatory environments. As part of the ESG disclosure reporting, response to government regulations is a key metric. However, the reporting does not control for the variances in each nation's number of government regulations. Government regulations are considered mandatory stakeholder expectations because firms must comply or face fines, imprisonment, lawsuits, or suspension of business activities. However, a substantial variance exists between nations in terms of environmental and labor regulations, especially between developed and emerging nations (Esty & Porter, 2005). Consequentially, some firms have more regulations to comply with and face increased costs of compliance. Nemetz (2015) offers that "the distinctions of mandatory compliance are critical because of the variability in actions that business organizations may make in response to government-supported requirements or incentives toward sustainability challenges" (p. 2). The number and nature of the regulations by country will impact financial outcomes because of the cost of compliance and the opportunity costs associated with implementing regulatory standards. This variable is not accounted for in the methodology of the study but could serve as an area for future research in ESG reporting.

The second major moderating variable is the individual strategies and core competencies of each firm. This study found correlations between CSR scores and financial outcomes, but effect sizes were relatively low. This means that a large percentage of financial outcomes is determined by something other than CSR efforts. Each business will have a unique strategy for sourcing, marketing and distributing their products as well as core competencies in pursuing those strategies. CSR strategies within an organization are determined predominantly by management, but is also heavily influenced by the board of directors (Waldman, 2008; Waldman, Siegel, & Javidan, 2006; Westphal & Zajac, 1995). Svendsen (1998) found that stakeholder-oriented organizations engage in relationship-based approaches that focus on long-term, strategic partnerships with a wide selection of both internal and external stakeholder groups and focus less on economic gains for shareholders. This CSR approach to strategy would not be accounted for in the research design of this project, but would certainly influence the degree to which CSR impact financial performance.

Notwithstanding management's predominant influence on business strategy and CSR efforts, employees are also involved in CSR outcomes. A large assumption of this study is that managers drive CSR efforts, but limited research has been conducted on how employees impact CSR efforts. Employees are considered important stakeholders within the organization because they execute corporate strategy as interface with external stakeholders (Donaldson & Preston, 1995; Freeman, 1984; Wood & Jones, 1995). Employee efforts are a moderating variable in this study because both corporate strategies with a CSR orientation and those without are executed by employees.

A final moderating variable needs to explored. No methodological considerations were given in this research study between corporations with male leadership and those corporations that included female leadership, yet research shows that males and females have distinctly different approaches to CSR (Metcalfe, 1989; Glass, Cook, & Ingersoll, 2016). For example, women are both more responsive to intrinsic rewards such as altruism and more willing to pursue innovate initiatives needed for a CSR approach (Gilligan, 1982; Adams & Funk, 2009; Eagly, Johannesen-Schmidt, & van Engen, 2003; and Torchia, Calabro, & Huse, 2011). Matsa and Miller (2013) found that women focus on a wider scope of stakeholder needs at the expense of short term profits. "Men may be more shareholder focused and short-term oriented in their approach to firm strategy, whereas women may be willing to bear the higher costs and focus more broadly on a wide range of stakeholders with a longer-term outlook. Women's socialization and career path may promote a greater emphasis on relationship building and community focus, which may align with the promotion of environmental initiatives" (Glass, Cook, & Ingersoll, 2016, p. 498). Corporate boards and managers of firms in this study are constituted by both male and female leadership. The differences in their approach to CSR serve as a moderating variable that is not accounted for, but research shows that these differences would clearly influence CSR efforts and financial performance.

Future Research

Continued research in this area is important to the field of international business and corporate finance. Financial results are reported as aggregated metrics and are not broken down or weighted by country. As mentioned earlier, each country influences CSR efforts uniquely so the connection between each country and the financial results of operations within that country needs to be explored. The Organisation for Economic Co-Operation and Development (OECD) projects that this transparency will soon happen as they continue to work towards reporting of financial results by region and by individual country of operations (OECD, 2017). When this information comes available, a more thorough analysis of financial results and CSR can be conducted by region. In the meantime, research can be conducted in this regard as case study research to see if there is merit to this investigation.

Further study is recommended in the field of business strategy to explore the motivations of managers. This study only makes the connection between CSR and financial performance of firms operating within the energy sector, but there are limited insights as to what drives these managers to engage or not engage CSR. Previous research has shown that managers perceive CSR as necessary to establish and maintain a competitive advantage, as a minimum cost of doing business, as an altruistic end, and taking actions that are slightly above minimum compliance with legal standards (Baldinger & Nothiger, 2011; Tullis, 2011; Rim, Yang, & Lee, 2016; Jennings, 2005). However, a more comprehensive understanding of managerial motivations is needed.

This study identified that a relationship exists between CSR and financial performance in some contexts of the energy sector. What needs further investigation is the return on investment of such CSR efforts. For example, firms within the independent power sub-sector experienced an impact on two major financial metrics, but there is no understanding of how much capital, energy, opportunity costs, and inefficiencies it took to achieve those results. In effect, a major gap exists in the literature regarding return on investment of CSR efforts. One sub-question to be explored within this area would be a identifying the point of diminishing rate of return on CSR efforts. A company can spend as little as zero dollars to the entirety of their financial wherewithal on CSR endeavors. These extreme options provide the context for what has become a Sordite's paradox in terms of financial returns of CSR efforts because the answer lies somewhere in between for the firms in this study (no firm had a disclosure score of zero or 100). The Sordite's paradox in this scenario asks the question – at what point do the financial returns of CSR efforts dissipate or even create a negative impact on the financial health of the firm.

The upward trends in ESG disclosure scores of the sample show that firms are responding to CSR demands of stakeholders, and the connection to financial results in the various contexts identified in the analysis demonstrate that a nexus exists between the variables. In the post mortem of these research findings, it is clear that perhaps the most fertile area for future research lies in exploring the connection between CSR and various factors and contexts of the energy sector. This conclusion is bolstered by three distinct realities - 1) a clear lack of academic research in this specific area 2) increased scrutiny on energy sector firms to practice CSR, and 3) world population growth will fuel increased demand for energy and place new constraints on infrastructure, supply chains, and sourcing options. These factors produce an exigent need to understand the practical implications of such a research agenda. Exploring CSR within the energy sector will provide both theoretical understandings and fruitful practical applications.

First, the flourishing field of research on CSR has only now started to delve into how CSR impacts (or is impacted) by the energy sector. In the last five years, interest in research on CSR within the energy sector has shown a marked increase and includes empirical work on sustainability reporting, energy firms leadership as environmental advocates, adoption of CSR policies by MNE's expanding globally, the impact on alternative energy consumption, effects on poverty, firm competitiveness, impingement on human rights, employee perceptions, value creation within the organization, and response to government regulations (Böhm, Brei, & Dabhi, 2015; Trapp, 2012; Mezher & Tabbara, 2010; Putzer, Pavluska, & Torocsik, 2013; Cabraal, Barnes, & Agarwal, 2005; Pätäri, Arminen, Tuppura, & Jantunen, 2014; Kuijpers, Van Huijstee, & Wilde-Ramsing, 2014; Syrjälä & Takala, 2009; Pätäri, Jantunen, Kyläheiko, & Sandström, 2012; Dong & Xu, 2016). The research in this area is topical at best and much is contextualized within single-country analyses. This patchwork approach to the research question leaves us with no dominating themes or sustaining theoretical framework. As a result, a more comprehensive understanding of the relationships, determinants, tertiary effects, underpinnings, antecedents, and implications of the subject is needed.

The second factor that facilitates the need for future research is that awareness of CSR has placed new demands on energy firms to engage in sustainable business practice. Firms that fail to include CSR as part of their business model put business opportunities and competitiveness at risk (Patari, Arminen, Tuppura, & Jantunen, 2014).

“The energy sector has faced greater scrutiny by the government and consumers in recent years because of environmental, social, or ethics shortcomings. A number of laws penalize companies whose activities are not environmentally friendly, reflect a lack of sensitivity to social welfare issues, or exhibit a pattern of unethical behavior." (Thompson, 2015, p. 463). The result of these expectations means that energy firms must continue to meet consumer demands under the scrutinous standards of CSR.

The final reason that the energy sector needs to be researched is that growing world populations will result in increased demand for all areas of energy. According to the United States Census Bureau (2015), the world population currently exceeds 7 billion people, and by the year 2025 the world will be home to over 8 billion people (as cited in Quinn, 2014). The world’s increasing population will necessarily increase the need for energy production and distribution.

Energy firms will have to find ways to supply this increased demand in an environment where stakeholders are demanding that they do using sustainable practice (Vaona, 2016). To achieve these results, Mezher and Tabbara (2010) offer that a variety of alternatives exist, including finding more efficient processes, utilizing renewable resources, and capturing and sequestering a larger volume of pollutants that are emitted during energy production processes. The positive news for energy firms is that the feasibility of using renewable resources as a means for energy production has improved in recent years (Clift, 2007; Sims, 2004). Zerta, Schmidt, Stiller, and Landinger (2008) estimate that traditional means of energy production vis-a-vis fossil fuels will eventually yield to these renewable energy sources. Understanding how firms will manage changes in sourcing in light of stakeholder expectations and substantial increases in consumer demands will be the theme that permeates CSR research in the context of energy markets research. Financial incentives exist for firms to make these changes. Higher demand will result in upward pressure on prices, creating opportunities for innovation, expansion, and efficiency.

What makes this a salient issue not only for global energy producers but also for government policy makers is that if demand is met efficiently, denizens of third world countries will experience the positive consequences thereof. Research shows that countries with higher aggregate supplies of energy have a much wider distribution of energy usage across the population (Kammen & Kirubi, 2008). Moreover, introduction of energy to previously underserved regions can aid in the amelioration of poor economic conditions (Barin-Cruz & Colombo, 2011). More specifically, dispersion of energy to rural areas in developing nations has been empirically proven to alleviate problems such as child and maternal mortality, improved education, and health services (Ezzati & Kammen, 2001; Cabraal et al., 2005). By 2030, only one of the top ten most populous nations (United States) will be a developed economy. The remaining nine nations are all developing nations, and will represent fifty-two percent of the global population by that time (United Nations, 2017). This makes the need to serve developing nations a global imperative for energy firms over the next two decades. This research shows that access to energy is a key ingredient to improving living conditions of developing nations, yet more research is needed to understand how energy firms can sustain (or introduce) accessibility to these countries which are represent most of the global population growth.

A key takeaway from this research project is that more research is needed to understand the energy industry. The vicissitudes of global demand and stakeholder expectations will place new constraints on energy firms, and they create an unavoidable exigency for academic research on the subject. In short, the energy industry will have to find ways to service demand in sustainable, and empirical research can aid in the challenges of this endeavor.

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