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

Review of Integrative Business & Economics Research

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ABSTRACT

The purpose of this research was to investigate the relationship between CSR and the financial performance for energy firms. 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 sample for this research utilized 243 of the 250 companies listed on Platt's Top 250 Global Energy Firms, which represent the largest energy firms in the world.

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

Received 7 August 2017 | Revised 13 October 2017 | Accepted 22 November 2017.

1.1 INTRODUCTION

The debate in the literature regarding corporate social responsibility (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;

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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.

1.2 Background

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.

Business has a unique role to serve social needs in that they utilize a large portion of resources (environmental, human capital, financial). 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).

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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.

2.1 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.

The purpose of business evolved throughout the 20th century. The hedonistic viewpoints of the Greeks and Romans long gone, practitioners such as Taylor (1911)

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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.

2.2 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).

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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. Hence, 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.

2.3 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.

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

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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.

2.4 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.

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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.

3.1 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).

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

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

(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, 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, &

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Stacchezzini, 2016; Fatemi, Glaum, & Kaiser, 2017; Eccles, Serafeim, & Krzus, 2011; Doyle, Visser, & Bendell, 2011; Park & Ravenel, 2013).

3.2 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.

3.3 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 was 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 R2) 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).

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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. 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.

3.4 Research Question

Research on stakeholder management as a conduit to long term financial performance has yielded conflicting results (Margolis, Elfenbein, & Walsh, 2012, Nermetz, 2015). Some studies definitively show, a positive relationship between

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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; and Du, Bhattacharya, & Sen, 2015; Putra & Simanungkalit, 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

Two 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?

4.1 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 section 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.

4.2 ESG Disclosure Scores

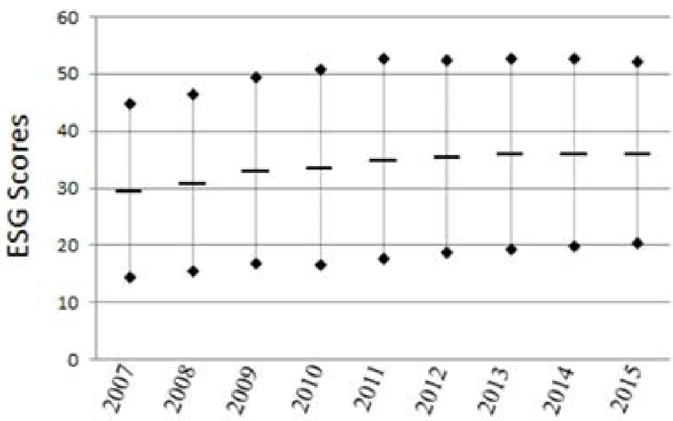
To answer the research questions, this study obtained ESG disclosure scores from Bloomberg's proprietary software program known as Bloomberg Sustainability for 243 of the 250 companies ranked by Platt's annual survey of global energy companies, known as Platt's 250 Top Global Energy Company Rankings. These energy firms

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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 2007 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

4.3 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

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

relationship exists between ESG scores and EBITDA (p = 0.63), return on assets (p = 0.84), and return on equity (p = 0.84).

TABLE 1 - 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 2 - 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 3 - 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

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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.

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 4 - 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 5 - 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.

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

TABLE 6 - 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

4.4 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

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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; and 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.

5.1 DISCUSSION

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; and Janssen, Sen, & Bhattacharya, 2015).

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

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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; and 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;

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& 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.

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

5.2 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

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

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; and 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 by 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

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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, D., & Kirubi, C. (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, M. & D. 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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