# РАЗДЕЛ 3 НАЦИОНАЛЬНЫЕ ПРАКТИКИ КОРПОРАТИВНОГО УПРАВЛЕНИЯ: БРАЗИЛИЯ

# SECTION 3 NATIONAL PRACTICES IN CORPORATE GOVERNANCE: BRAZIL

## DOES SOCIAL RESPONSIBILITY MATTER FOR FIRM PERFORMANCE? EVIDENCE FROM BRAZIL

***Thiago Emmanuel*, Andre Carvalhal**, Marcos Avila****

**Abstract**

This paper analyses the relationship between social responsibility and financial performance of Brazilian companies. This subject has been largely studied and presents many discussions and different points of view. There are a considerably number of research that tries to link social responsibility and financial performance. However, there is not a fully established consensus about the issue. Despite a great number of empirical researches regarding this subject, there are few studies in the Brazilian market. We analyze 515 Brazilian companies listed on BM&FBovespa from 2001 to 2007 and check which companies have disclosed the IBASE social report, which proposes a standardized methodology for social reporting and allows us to compare companies in different sectors over time. Our results indicate that companies that disclose social information have a superior performance when compared with companies that do not disclose. Moreover, financial performance is positively related with social investments. Interestingly, the "voluntary" social investments, which are not mandatory by law, have a strong effect on firm value and performance.

**Keywords:** Social Responsibility, Firm Performance, Firm Value

*Federal University of Rio de Janeiro, Coppead Graduate School of Business, Rua Pascoal Lemme, 355 - Ilha do Fundao, 21941-918 - Rio de Janeiro – RJ - Brazil
Tel.: (21) 2598-9800
Email: thiago_emmanuel@hotmail.com
**Corresponding Author; Pontifical Catholic University of Rio de Janeiro, Departamento de Administracao (IAG), Rua Marques de Sao Vicente, 225 – Gavea, 22451-041 - Rio de Janeiro – RJ – Brazil
Tel.: (21) 2598-9800
Email: andrec@coppead.ufrj.br
***Federal University of Rio de Janeiro, Coppead Graduate School of Business, Rua Pascoal Lemme, 355 - Ilha do Fundao, 21941-918 - Rio de Janeiro – RJ
Tel.: (21) 2598-9800
Email: marcos@coppead.ufrj.br

## 1. Introduction

After years of prosperity and progress in several areas, the world economy begins to show some serious consequences of this process. Large corporations have grown and become internationalized over time, and have been certainly the driving forces behind the progress. Besides bringing economic progress, companies also have a deep social impact in society (Mintzberg (1984)).

For a long time, perhaps because of the huge profits of companies, there has been a great myopia in relation to side effects of human actions and there has not been adequate attention to important issues such as environmental degradation and social inequality (Freeman, Martin and Parmar (2007)). Several recent events such as global warming, environmental damage and increased crime corroborate this finding.

Another undeniable evidence is the growing awareness of the general population to the dangers and threats of social and environmental impacts. Thus, customers, employees, suppliers, community, and government tend to put pressure on companies to act with social and environmental responsibility to pursue their goals.

In this scenario, a dilemma emerges for companies: does investing in social responsibility bring some kind of economic reward for the company? In other words, do firms that adopt good social practices have superior financial performance?

Among those who think that investing in social practices is detrimental to the performance of a company stands out Friedman (1970). Friedman argues strongly against social investments and that the government and individuals should care about society, but it should never be responsibility of companies. For the author, the goal and raison d'être of a company are to generate more money for their shareholders. Friedman goes further and asserts that the true social responsibility of companies is to increase their profits.

Friedman adopts a discourse that can be interpreted as too radical. However, his view is certainly shared by many academics and business executives. Responsible investments are, in most cases, costly and the return is often uncertain and long term. Therefore, companies that choose to do this kind of investment may find themselves at a competitive disadvantage, since competitors may be allocating the same resources into improvements in their product or production process.

Since the publication of the famous article by Milton Friedman, the economic landscape has changed in an increasingly dynamic. It is essential that companies monitor these changes when establishing their strategies for the future. Prahalad and Hamel (1994) attribute the collapse of some of the most powerful companies in the world to the inefficiency of its managers to anticipate and respond to new competitive realities. New forces are reshaping the landscape of industry competition and the sources of competitive advantage have also changed. The concern with social actions and changes in customer expectations are among the forces that tend to push the change of behavior of corporations in the coming years.

Freeman, Martin and Parmar (2007) presented the idea of "stakeholder capitalism", a capitalism based on ethics and morals, which sees the relationship with stakeholders as essential to creating value for the company. Unlike proposed by Friedman (1970), the company's focus should not confine itself to generate wealth for shareholders, but creating welfare for those groups that are affected by or affect the company.

Who shares this view believe that there may be rewards for practicing social responsibility, or believes that the costs incurred in implementing such actions are overcome by better results due to a possible better reputation. There are several examples where this can happen: a company that invests in recyclable packaging that pollutes less can win customers who value environmental aspects and thus generate more wealth; companies that give benefits to their employees can motivate them and achieve results better or tend to attract the most qualified professionals.

By taking measures that are beyond the rules imposed by the laws, companies are less subject to fines and dissatisfaction and may be perceived as less risky and more attractive to investors and lenders, and may even get better credit terms. On the other hand, companies that do not commit to social aspects may conflict with some of its stakeholders and be victims of boycotts, strikes and even destruction of some physical assets (Ruf et al. (2001)).

By generating much discussion and present opposing viewpoints, the subject has been widely debated by academics and by managers of companies over more than four decades. There are many studies that attempt to relate social performance with financial performance of companies. There is, however, no consensus on the issue.

Despite a huge range of empirical research on this topic, there are few studies addressing this issue in Brazil. This study examines the relationship between social responsibility and financial performance of Brazilian companies, and tries to answer the following questions: (i) do Brazilian companies that invest in socially responsible practices have higher financial performance? (ii) does higher level of transparency on social investments bring financial reward?

We analyze 515 Brazilian companies listed on BM&FBovespa from 2001 to 2007 and show that companies that disclose social indicators have

better performance than firms that do not disclose. In addition, all measures of financial performance (ROA, ROE, and P/B) are positively related with social investments, especially voluntary social investments.

The work is divided into five sections. In section 2, we present the literature review. Section 3 shows the data and methodology, and section 4 presents the results. In Section 5, we present the conclusion and final comments.

## 2. Literature Review

There has been a great number of works dealing with the relationship between financial performance and social responsibility of companies. Despite more than 40 years of research and discussions on the subject, the matter is far from consensus among academics and professionals.

The greatest difficulty in such studies is to determine the best way to measure social performance and define which companies actually have good social performance. According to Becchetti et al. (2008), a stricter definition of social responsibility says that it is directly related to the adoption of practices that positively affect the welfare of stakeholders of the firm. That is, companies do more than just follow the laws (McWilliams and Siegel (2000)).

The concept of social responsibility is very broad and comprises many variables. The perception of which variables is more or less important varies from individual to individual, which brings a great subjectivity to the concept. As a result, previous studies present a wide range of methodologies to get an accurate measure of the social performance of companies. Moreover, there is a huge discussion on how to relate social responsibility to financial performance. Aupperle et al. (1985) criticize the simplicity of many methodologies and argue that some studies have emotional interpretations and ideologies that tend to influence the results.

Besides the disagreements over the methods used to verify the relationship between social and financial performance, the results obtained in earlier studies are also different. Some authors find a positive relationship, others find negative relationships, and some find no significant relationship between financial and social variables. Ullmann (1985) attributes the inconsistency of the results to different methods of measuring social performance.

The way to evaluate the social performance of companies is the most critical and controversial subject of current research. In most cases, this performance is evaluated by third parties, who are subject to biases and prejudices. The methods are often subjective and often questionable.

Waddock and Graves (1997), McWilliams and Siegel (2000), Ruf et al. (2001) and Becchetti et al. (2008) use as a base for their research assessment conducted by Kinder, Lydenberg and Domini (KLD). The KLD is an independent company that assigns grades or ratings related to social and environmental practices of the 3000 largest companies listed in the U.S.

McWilliams and Siegel (2000) and Becchetti et al. (2008) used as a proxy for social performance the inclusion in the Domini 400 social index. The companies eligible for this index are those with the best ratings by the method KLD. Preston and O'Bannon (1997) and Stanwick and Stanwick (1998) use data on the reputations of companies published by Fortune magazine annually. The Fortune reputation index is based on questionnaires sent to over 8000 executives and outside experts who assess the industries giving scores from 0 to 10 for 8 social requirements.

There are lots of studies analyzing the relationship between social and financial performance. Ullmann (1985) does a summary of 14 studies conducted between 1972 and 1984, and shows that most works (8 out of 14) report a positive relationship between social and financial performance. Pava and Krausz (1996) also summarize results of previous research, with 21 studies between 1972 and 1992. The authors observe that, in most studies (12 out of 21), companies with good social practices have equal or superior financial performance.

Becchetti et al. (2008) find mixed results. Companies that are present in the Domini 400 index tend to have higher sales per employee but lower ROE. McWilliams and Siegel (2000) find a significantly positive relationship between social and economic performance, but, after controlling for R&D investment, the relationship is not statistically significant.

Waddock and Graves (1997) report a positive relationship between socio-environmental performance and financial performance. Ruf et al. (2001) show a positive relationship between social performance, sales growth and return on sales. However, Makni et al. (2009) conclude that companies with better social performance have lower market returns, and Aupperle et al. (1985) find no relationship between social and financial performance.

In Brazil, there is little research on the relation between financial performance and social practices. The number of works started to grow after the launch of the Sustainability Index (ISE) of BM&FBovespa in 2005. The ISE aims to measure the return on a theoretical portfolio composed of companies best classified in terms of social and environmental responsibility.

Cavalcante, Bruni and Costa (2009) examine the return and risk of ISE stocks and report no

statistical evidence that companies with good social and environmental practices have higher returns. Brito (2005) examines the impact of positive and negative news regarding the environmental practices of Brazilian firms and concludes that negative news have a negative impact on stock prices, while positive news have no significant effect.

Kitahara and Silveira (2008) examine the relationship between operating income and investments in social and environmental practices by Brazilian firms from 2000 to 2004. Social investments were obtained from the social reports published by the Brazilian Institute of Social and Economic Analyses (IBASE). The authors find that social investments are positively related to operating results, and that there is no relation between environmental investments and operating results.

Based on the above discussion, we test two hypotheses in this study. The first checks whether the simple fact that companies disclose their social investments provides superior financial results. If this hypothesis is confirmed, there is evidence that greater transparency of companies with regard to their social practices sends a positive message to customers and investors, leading to better performance.

The second hypothesis verifies if companies that invest more in social actions have better performance. If this hypothesis is confirmed, there are indications that investments in social practices provide companies with a return higher than the expenses incurred in such actions. The hypotheses can be summarized as follows:

*H1: Companies that provide information about their investments in social practices have superior returns.*
*H2: Companies that invest more in social actions have superior returns.*

## 3. Data and Methodology

We analyze 515 Brazilian companies listed on BM&FBovespa from 2001 to 2007. To measure the social performance, we verify which companies disclose the social report according to the IBASE model. IBASE created the social report in 1997, and its main goal was to develop a culture of transparency in disclosing the social practices by companies. In late 2009, IBASE decided to finish the project by considering that the main goal of the social report (to motivate the transparency of companies in their social relations) was already completed.

We use the IBASE database, since it proposes a standardized methodology for social reporting. Although many companies already disclose their own social data, there is no rule requiring such disclosure in the Brazilian market. Thus, companies that provide social reports make them voluntarily and present them in different ways. Since the IBASE model is standardized, we can do comparisons between companies in different sectors of the economy. Moreover, we can compare the social performance of the same company over time.

The IBASE social report is divided into 5 major groups, which are composed by several items. The five main groups of indicators are: external social, internal social, environment, employees, and corporate citizenship. All expenditures incurred on each item are reported in absolute values, in percentage of total wages, and in percentage of net revenue. To facilitate comparison between companies, we use the percentage of net revenues to measure social investments in this study. The complete model of the IBASE social report can be viewed in the Appendix.

Since we wish to examine the relation between social responsibility and financial performance, we focus only on the first 2 items of the IBASE social report: internal and external social indicators. Internal social indicators are directed to firms' employees, such as social security contributions, private pension plans, food, health and safety benefits, occupational medicine, education, professional development, day care assistance and profit sharing. External social indicators benefit people outside the firm, such as investments in education, culture, health and sanitation, housing, sports, leisure and recreation, childcare, food security, and other taxes.

A point open to criticism of both social indicators is the presence of items that relate to compulsory taxes and social security contributions. As such expenditure is an obligation for the company, this should not be considered a voluntary action with social aspects. In this paper, we create new internal and external social indicators, referred to herein as "voluntary social indicators", which are the same indicators explained above except for the expenditures on compulsory taxes and social security contributions.

It is noteworthy that not all companies fulfill all items of IBASE social report. Moreover, since the IBASE social report is not audited, some companies disclose only the items that have large investments, a fact which undoubtedly brings limitations to the study.

From 2001 and 2007, 84 companies disclosed at least once the IBASE social report. The number of companies that reported varied each year, totaling 375 observations throughout the period, an average of 53.6 firms per year.

To analyze the relationship between social responsibility and financial performance, we use 3 performance measures (2 accounting indicators and 1 market variable), which come from the

Economatica database. Regarding accounting ratios, we use ROA (return on assets, measured by the ratio of operating profit to total assets) and ROE (return on equity, measured by the ratio of net income to net worth). For market indicator, we use P/B (price-to-book, measured by the ratio of market value to book value of shares).

Our first analysis aims to test hypothesis 1, that is, if companies that provide information about their social investments through the IBASE report have superior performance. For this, we split our database into two groups according to the disclosure of the IBASE report and compare the performance (ROA, ROE, and P/B) between the two groups. We use the Mann-Whitney test to examine whether there are significant differences between the performance of both groups.

Our second analysis is to run a regression model to examine the relationship between financial performance and social investments. Since our sample includes 515 companies over 7 years, we run a fixed-effects panel to examine the relationship between financial performance and disclosure of social investments in the IBASE model. We test other panel models (fixed and random effects) but the Hausmann test indicates that fixed-effects models are more appropriate. The models are estimated according to the following equation:

$$PERF_{i,t} = \beta_1 + \beta_2 SOCREP_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 GRO_{i,t} + \varepsilon_{i,t}$$

where PERF is the company's financial performance (measured by ROA, ROE and P/B), SOCREP is a dummy variable that takes the value of 1 whether the company discloses the IBASE social report, SIZE is firm size (logarithm of total assets), LEV is firm leverage (the ratio between liabilities and total assets), and GRO is the average annual growth of sales over the past three years.

To test the hypothesis 2, we run a fixed-effects panel to examine the relationship between financial performance, and social investments. For this stage of the study, we use only those companies that have disclosed the IBASE social report in the period. We included 3 variables in the model: internal, external and total social indicators (sum of internal and external social indicators). To test the robustness of our results, we also use these three social indicators without considering compulsory taxes and social security contributions ("voluntary social indicators"). The models are estimated according to the following equation:

$$PERF_{i,t} = \beta_1 + \beta_2 SOCINT_{i,t} + \beta_3 SOCEXT_{i,t} + \beta_4 SOCTOT_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRO_{i,t} + \varepsilon_{i,t}$$

where PERF is the company's financial performance (measured by ROA, ROE and P/B), SOCINT is the internal social indicator (sum of the following items, as a percentage of net revenue: social security contributions, private pension plans, food, health and safety benefits, occupational medicine, education, professional development, day care assistance and profit sharing), SOCEXT is the external social indicator (sum of the following items, as a percentage of net revenues: education, culture, health and sanitation, housing, sports, leisure and recreation, childcare, food security, and other taxes), SOCTOT (sum of SOCINT and SOCEXT), SIZE is firm size (logarithm of total assets), LEV is firm leverage (the ratio between liabilities and total assets), and GRO is the average annual growth of sales over the past three years. Besides the above social variables we also use the voluntary social investments: voluntary internal social (SOCINTV), voluntary external social (SOCEXTV) and total voluntary social (SOCTOTV).

## 4. Results

Table 1 shows the descriptive statistics of variables used in this study. On average, Brazilian firms in our sample have high profitability (ROA of 3.3% and ROE of 10.3%), P/B of 1.5, low leverage (26%) and good growth opportunities (16% of historic annual sales growth).

**Table 1.** Descriptive Statistics

Descriptive statistics of variables used in this study from 2001 to 2007. The definition of each variable can be seen in section 3.

| | Mean | Median | Std Dev | Min | Max |
|---|---|---|---|---|---|
| ROA | 3.3% | 2.8% | 7.7% | -30.7% | 33.1% |
| ROE | 10.3% | 10.1% | 19.4% | -63.0% | 85.0% |
| P/B | 1.5 | 1.1 | 1.5 | -4.5 | 7.9 |
| SIZE | 13.6 | 13.7 | 2.0 | 4.3 | 19.6 |
| LEV | 25.9% | 24.4% | 20.5% | 0.0% | 112.5% |
| GRO | 16.5% | 15.4% | 17.5% | -50.4% | 89.6% |

The first analysis aims to test the hypothesis 1, that is, if companies that provide information about their investments through the IBASE social report have superior financial performance. For this, we split our sample into two groups according to the disclosure of the IBASE social report and compare the results of financial variables (ROA, ROE, and P/B) between the two groups. We used the Mann-Whitney test to examine whether there is significant difference in financial performance between the two groups of companies.

Table 2 shows the results. Companies that publish IBASE social reports have higher performance (ROA, ROE and P/B) when compared to companies that do not disclose it. The ROA, ROE and P/B of IBASE-disclosing firms are 4.6%, 15.5% and 1.5, significantly higher than those of non-disclosing companies (2.3% 10.6% and 1.2, respectively). The differences are significant both in statistical and economic terms.

**Table 2.** Financial Performance and IBASE Social Disclosure

Measures of financial performance (ROA, ROE, and P/B) of Brazilian listed companies from 2001 to 2007, classified into two groups according to the disclosure or not of the IBASE social report. The definition of the variables can be seen in section 3. We carried out the Mann-Whitney test to verify whether the average performance of two groups of companies is different. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

| | Firms with IBASE Social Report | Firms without IBASE Social Report |
|---|---|---|
| ROA | 4.6%*** | 2.3% |
| ROE | 15.5%*** | 10.6% |
| P/B | 1.5*** | 1.2 |

Table 3 shows the results of the fixed-effects panel models to examine the relation between financial performance and disclosure of social investments through the IBASE model. Similar to the results in Table 2, companies that publish IBASE social report have superior performance. The coefficients on SOCREP are positive and statistically significant at 1% for all 3 performance variables. We also can see that performance is positively related to firm size and negatively related to leverage. Even after controlling for firm size and leverage, there is a positive effect of social disclosure and performance.

**Table 3.** Relation Between Financial Performance and IBASE Social Disclosure

Fixed-effects panels where the dependent variable is financial performance (ROA, ROE, and P/B) of Brazilian listed companies from 2001 to 2007, and the explanatory variable is SOCREP (dummy variable indicating the disclosure of the IBASE social report). Firm size, leverage and growth are used as control variables. The p-values adjusted for autocorrelation and heteroscedasticity are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

| | ROA | ROE | P/B |
|---|---|---|---|
| SOCREP | 0.03*** | 0.16*** | 0.50*** |
| | (0.00) | (0.00) | (0.00) |
| SIZE | 0.03*** | 0.04*** | 0.29*** |
| | (0.00) | (0.01) | (0.00) |
| LEV | -0.01*** | 0.01* | -0.01*** |
| | (0.00) | (0.06) | (0.01) |
| GRO | 0.00 | 0.00 | 0.00 |
| | (0.20) | (0.30) | (0.30) |
| $R^2$ adj | 0.33 | 0.15 | 0.27 |

Table 4 shows the results of fixed-effects panels to examine the relationship between financial performance and social investments (internal, external and total social indicators). Companies that invest more in social actions have higher ROE and P/B. There is a significantly positive relation between ROE, external and total social indicators (at 5% and 1% levels, respectively). There is no relation between ROE and internal social indicators. For P/B, all three social indicators have positive and significant coefficients. It is interesting to note that we find no relation between social investments and ROA. Although the coefficients are positive, they are not statistically significant.

**Table 4.** Relation Between Financial Performance and Social Investments

Fixed-effects panels where the dependent variable is financial performance (ROA, ROE, and P/B) of Brazilian listed companies from 2001 to 2007, and the explanatory variables are social investments (internal, external and total social indicators). Firm size, leverage and growth are used as control variables. The p-values adjusted for autocorrelation and heteroscedasticity are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

| | ROA | | ROE | | P/B | |
|---|---|---|---|---|---|---|
| | I | II | III | IV | V | VI |
| SOCINT | 0.01 | | 0.08 | | 0.04* | |
| | (0.60) | | (0.25) | | (0.08) | |
| SOCEXT | 0.01 | | 0.04** | | 0.08* | |
| | (0.28) | | (0.04) | | (0.03) | |
| SOCTOT | | 0.01 | | 0.06*** | | 0.07** |
| | | (0.17) | | (0.00) | | (0.03) |
| SIZE | 0.01*** | 0.01*** | -0.07*** | -0.08*** | 0.71*** | |
| | (0.01) | (0.01) | (0.01) | (0.00) | (0.00) | |
| LEV | -0.01*** | -0.01*** | 0.00 | 0.00 | -0.05*** | -0.04*** |
| | (0.00) | (0.00) | (0.94) | (0.20) | (0.00) | (0.00) |
| GRO | 0.01** | 0.01** | 0.02 | 0.02 | -0.53* | -0.62*** |
| | (0.04) | (0.03) | (0.43) | (0.42) | (0.10) | (0.00) |
| $R^2$ adj | 0.45 | 0.46 | 0.20 | 0.20 | 0.43 | 0.50 |

Table 5 shows the results of the panel models to examine the relation between financial performance and voluntary social indicators. The results indicate that all performance measures (ROA, ROE, and P/B) are positively related to voluntary social investments. In contrast to the previous analysis, we find a positive relation between ROA and all social indicators (mostly at 1% significance level). In the case of ROE, all social indicators have positive coefficients at 1% level, even the internal indicators, which were not significant in Table 4. Further, the relation of P/B and all social indicators also remains significantly positive.

**Table 5.** Relation Between Financial Performance and Voluntary Social Investments

Fixed-effects panels where the dependent variable is financial performance (ROA, ROE, and P/B) of Brazilian listed companies from 2001 to 2007, and the explanatory variables are voluntary social investments (internal, external and total social indicators). Firm size, leverage and growth are used as control variables. The p-values adjusted for autocorrelation and heteroscedasticity are in parentheses. ***, ** and * denote statistical significance at 1%, 5% and 10% respectively.

| | ROA | | ROE | | P/B | |
|---|---|---|---|---|---|---|
| | I | II | III | IV | V | VI |
| SOCINTV | 0.04*** | | 0.28*** | | 0.40* | |
| | (0.00) | | (0.01) | | (0.05) | |
| SOCEXTV | 0.18** | | 1.24*** | | 0.92** | |
| | (0.02) | | (0.00) | | (0.04) | |
| SOCTOTV | | 0.03*** | | 0.39*** | | 0.60** |
| | | (0.00) | | (0.00) | | (0.05) |
| SIZE | 0.01** | 0.01*** | -0.13*** | -0.11*** | 0.71*** | 0.75*** |
| | (0.02) | (0.01) | (0.00) | (0.00) | (0.00) | (0.00) |
| LEV | -0.01*** | -0.01*** | 0.00 | 0.01*** | -0.05*** | -0.05*** |
| | (0.00) | (0.00) | (0.25) | (0.00) | (0.00) | (0.00) |
| GRO | 0.00 | 0.00 | 0.11*** | 0.11*** | -0.50*** | -0.44*** |
| | (0.96) | (0.95) | (0.00) | (0.00) | (0.01) | (0.01) |
| $R^2$ adj | 0.44 | 0.45 | 0.20 | 0.20 | 0.50 | 0.50 |

Comparing the results of Tables 4 and 5, we note that the statistical significance of the coefficients of voluntary social indicators is even stronger than those presented in Table 4. Overall, as expected, we can conclude that voluntary social

indicators are much more important than social practices that are mandatory due to legislation.

## 5. Conclusions

Social responsibility is a topic that has been widely studied by academics and executives. There are many studies that attempt to analyze the relation between social investments and with financial performance, but there is no consensus. Despite a huge empirical research on this topic, there are few studies addressing this issue in Brazil.

The objective of this study is to analyze the relationship between social investments and financial performance of companies in Brazil. As in previous research, conducted mainly in developed countries, the main limitation of this kind of study is to find a consistent database on social practices. We use the IBASE social report, since it has a standardized assessment of social practices and allows us to compare the investment in social practices of different companies over time. The paper also examines whether greater transparency of social practices brings benefit to companies.

By analyzing 515 Brazilian companies from 2001 to 2007, we provide evidence that firms that disclose IBASE social reports have higher price-to-book and profitability (ROA and ROE), suggesting that transparent companies are valued by society and the market.

We also show that companies that invest more in social practices have higher performance. The so-called "voluntary" social indicators, which do not include compulsory taxes and social security contributions, have a strong positive on firm value and profitability. Overall, our study concludes that disclosing and investing in social practices brings financial and non-financial benefits that are greater than the costs incurred to implement such actions.

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## Appendix

## IBASE Social Report

| **1. Basis** | Value (R$) | | |
|---|---|---|---|
| Net Income (NI) | | | |
| Operating Income (OI) | | | |
| Gross payroll (GP) | | | |
| **2. Internal Social Indicators** | Value (R$) | % GP | % NI |
| Food | | | |
| Compulsory social charges | | | |
| Private pension | | | |
| Health | | | |
| Safety and occupational health | | | |
| Education | | | |
| Culture | | | |
| Training and professional development | | | |
| Nurseries or day-care assistance | | | |
| Participation in profit sharing | | | |
| Other | | | |
| Total Internal Social Indicators | | | |
| **3. External Social Indicators** | Value (R$) | % OI | % NI |
| Education | | | |
| Culture | | | |
| Health and sanitation | | | |
| Housing | | | |
| Sport | | | |
| Leisure and entertainment | | | |
| Kindergarten | | | |
| Food | | | |
| Combating hunger and food security | | | |
| Other | | | |
| Total Contributions to Society | | | |
| Taxes (excluding social charges) | | | |
| Total External Social Indicators | | | |
| **4. Environmental Indicators** | Value (R$) | % OI | % NI |
| Investments related to the production/operation | | | |
| Investments in programs and/or projects | | | |
| Total Environmental Indicators | | | |

Regarding the establishment of annual targets to minimize waste, consumption in production/operations and increase efficiency in the use of natural resources, the firm:

**5. Workforce Indicators**

No. of employees at the end of the period

No. of admissions during the period

No. of third party's employees

No. of trainees

No. of employees over 45 years

No. of women working in the company

% of management positions held by women

No. of black people working in the company

% of management positions held by blacks people

No. of people with disabilities or special needs

**6. Relevant Information Concerning Corporate Citizenship**

Ratio between highest and lowest salary

No. of accidents at work

Who defines the social and environment projects?

Who defines the health and safety standards in the workplace?

Is the firm involved concerning freedom of association, the right to collective bargaining and internal representation of employees?

Does the firm grants private pension plans to all employees?