The Effect of Corporate Sustainability Practices on Financial Performance:
Evidence From Turkey

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EXECUTIVE SUMMARY

In this chapter, the impact of corporate sustainability practices (CSP) on corporate financial performance (CFP) is investigated in terms of Turkish manufacturing industry. In this context, 16 sustainable companies vs. 21 control companies in 2016 and 16 sustainable companies vs. 24 control companies in 2017 are examined. Thirty-seven financial performance variables within seven groups are used, and non-parametric Mann-Whitney U test is applied. In 2016, four out of seven significant variables point out that sustainable companies perform better than control sample; however, in 2017, three out of four significant variables indicate the opposite. Therefore, the results are mixed, and it is concluded that implementing environmental, social, and governance (ESG) criteria do not have a noticeable positive effect on financial performances of manufacturing industry companies, at least in the short-term.

INTRODUCTION

The foundation of the concept of corporate social responsibility as we know it today was set by the book 'Social Responsibility of the Businessman' by Bowen (1953). While there have been many definitions of CSR made in the literature, these are often far from being clear (McWilliams, Siegel, and Wright, 2006:1). Dahlsrud (2008) conducted a content analysis on 37 CSR definitions and presented five dimensions of CSR. These are environmental, social, economic, stakeholder, and volunteerism dimensions. So, organizations like environmentally sensitive organizations, organizations related to workplace health and safety and consumer rights have become important stakeholders, and this has got company managers to work with an expanding environment of stakeholders (Carroll, 1991:39-42). Therefore, in addition to its legal requirements, a company also has social liabilities, that is, social responsibility begins where law ends (Davis, 1973:313). As social responsibilities have a tendency to be equated with social power, neglecting these responsibilities will cause the business to lose power (Davis, 1960:76).

Corporate social performance was defined by Wood (1991:691-694) as the holistic output of a comprehensive administrative model that is based on CSR principles. In his CSP model, he discussed CSR principles on institutional, organizational and individual levels, specified corporate social responsiveness processes within the framework of environmental evaluation, stakeholder management and issues management and classified the outputs of corporate behavior as social effects, social programs and social policies. Then, could adopting CSR also have an effect on corporate financial performance? There are two approaches on this topic. One of these argues that companies become disadvantaged in competition as social responsibility behaviors bring extra costs (Alexander and Buchholz, 1978:479). These costs may arise due to activities of reducing air pollution, additional financial rights provided to employees, assistance-donations and various sponsorships (Galant and Cadez, 2017:678). Likewise, Vance (1975) also reached results that supported this idea. The other view is that socially responsible companies already have the necessary management skills that financially superior companies should have (Alexander and Buchholz, 1978:479). Additionally, socially responsible companies are expected to have a higher financial performance due to profits that increase with innovation, high efficiency, lower probability of encountering sanctions and lawsuits because of environment-related crimes (or violation of labor law), high employee loyalty and increased popularity of the company (Sudha, 2015:1330). Thus, the ambiguity of the effects of CSR on CFP led researchers to investigate the link of CSR-CFP.

In Turkey, some case studies have been conducted on CSR recently, especially after launching the Borsa Istanbul Sustainability Index (XUSRD) in November 2014. Although the first Socially Responsible Investment (SRI) fund in Turkey was issued in May 2008 by Isbank, unfortunately, only a few SRI funds were added by the end of 2017. Hence, rather than Turkish SRI funds, XUSRD triggers the empirical investigation of CSR in the context of Turkey. However, previous case studies on Turkey are limited, and many aspects of CSR in Turkey need to be empirically examined.

Before XUSRD, some Turkish companies had already demonstrated their commitment to sustainability practices. Especially corporate governance criteria have been taken into account by many companies. Moreover, there has been a corporate governance index in Turkey since August 2007, and the companies embracing corporate governance principles are listed in this index. However, corporate governance is one of the components of sustainability. Considering all components of sustainability, XUSRD lists sustainable Turkish companies. Many companies are putting more emphasis on sustainability practices, and the number of the listed companies in XUSRD has been increasing since November 2014.

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