Is 'doing good' bad for a company's bottom line? Yes, says study

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Credit: Florida Atlantic University

Companies that try to "do good" are likely to find that Corporate Social Responsibility (CSR) is bad for their bottom lines, according to a new study from Florida Atlantic University's College of Business.

"We found that emphasizing Corporate Social Responsibility is not good for shareholders," said David Javakhadze, Ph.D., assistant professor of finance, who investigated the relationship between CSR and efficiency with which firms allocate their capital resources. "If you're an investor you should think twice before you invest in those firms that emphasize CSR."

For the purpose of the study, CSR is defined as strategies that appear to foster some social good, including programs that benefit community engagement, diversity, the environment, human rights and employee relations. The study, published in the *Journal of Corporate Finance*, found that focusing on CSR strategies imposes costs on firms in the form of foregone investment opportunities that in the long run leads to losses for their shareholders.

In his empirical analyses using a large sample of firms for the period 1992 to 2014, Javakhadze found that CSR reduces a firm's overall performance and investment efficiency. Investment should follow growth opportunities, he explained, and CSR distorts this relationship because it diverts a firm's resources from its core practices. That distortion is lower in firms where the CEO's compensation is tied to the stock price or in firms that are rich in resources.

"It's not only about money; it's about time," said Javakhadze, who co-authored the paper with doctoral student Avishek Bhandari. "If I'm a CEO I should be focusing on finding growth opportunities. If instead I spend my time and my energy to find CSR initiatives it diverts my time and my energy to something else, not focusing on building shareholder wealth."

While companies around the world have adopted CSR strategies, a trend that has gained traction in recent years, it hasn't always been popular. As the economist Milton Friedman said of CSR back in 1970, "a corporation's responsibility is to make as much money for the stockholders as possible."

"Most firms don't have unlimited resources," Javakhadze said. "If you invest in socially responsible activities then you won't have enough resources to invest in more profitable projects, which is not good. It might be good for society. It might be good for managers. But it is not good for shareholders."

Provided by Florida Atlantic University

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