Corporate social responsibility: less profit, more value

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Companies that operate in a socially responsible manner 'pay' for this with a loss in financial profit. Yet at the same time, socially responsible business practices can enhance a company's value. Dutch economist Lammertjan Dam concludes this from his research into the financial/economic aspects of socially responsible business practices.

Future generations will have to bear the cost of pollution produced by current generations. Socially responsible companies try to prevent this 'passing of the buck'. What are the implications of practicing socially responsible business for the financial/economic position of such a company? Dam developed a model to analyse the relationship between corporate social performance and various indicators for corporate financial performance. He concludes that socially responsible business practices reduce a company's financial profit but could potentially enhance its value.

For example, he studied the corporate financial performance indicators of banking institutions that have adopted the so-called Equator Principles. With these, financial organisations try to realise sustainable development by means of project funding. Banks that are signatories to these principles were found to score significantly better for some of these indicators compared to banks that were not signatories. However, being a signatory does not undermine the market value of these financial institutions. On the contrary, the environmental-friendliness of a company also appears to reflect a certain value. If the environmental friendliness of a company is correctly incorporated in the share price and

if the stock market is efficient then the current generation of managers and directors will insist that the company becomes more environmentally friendly so that the shares can later be sold for a good price. According to Dam, such an approach can solve the time-honoured conflict between current and future generations.

Furthermore, Dam's research reveals that companies with a relatively poor score for environmental standards are more frequently located in poor countries, corrupt countries or countries with weak environmental legislation. With his research, Dam provides new evidence for the so-called ‘Pollution Harbour Hypothesis’, which states that multinationals transfer their polluting operations to countries with weak environmental legislation. Socially responsible businesses, on the other hand, find such countries far less attractive.

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