

Effect Of the Disclosure of Corporate Social Responsibility Practices on The Financial Value of The Companies Listed on The Colombian Stock Exchange

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Abstracts: This research project intends to analyze the financial effects caused by the implementation of Corporate Social Responsibility (CSR) in companies, and the shareholders' perspective regarding the disclosure of these practices in the stock market. The Colombian Stock Exchange (BVC) market's reaction was studied, using as a reference 20 companies included in the COLCAP index. The influence of this CSR-type announcements published in important local newspapers was analyzed. The results show that the social practices developed by the Colombian companies listed on the BVC have a positive relationship with financial performance; this fact is evidenced by the change in the share price.

Keywords: Corporate Social Responsibility, Financial performance, Colombian Stock Exchange, COLCAP.

1. INTRODUCTION

The current dynamics of the world's economy has led organizations to spot opportunities in global markets, but this also makes them face unprecedented challenges to manage the expectations and the well-being of different interest groups (stakeholders). Every day, they are more aware of the importance of caring for the environment, of the responsibility that companies have facing the impacts that their activities cause (or can cause on their stakeholders); therefore, they exert greater pressure on the corporate activities. More transparency, ethics and a sustainable behavior with the society are demanded (Bruni et al., 2011; Commission of the European Communities, 2001; Pérez-Calderón et al., 2012). This leads organizations to implement efficient Corporate Social Responsibility (CSR) strategies that are aligned with the administrative policy, highlighting corporate values and mission and, showing the link between corporate strategy and sustainability (which strengthens the relations with the interest groups).

In general, based on international experience, the listed companies are more aware of improving their CSR practices, they invest in transparency and work ethic policies in order to improve relations with all their stakeholders, and they care about implementing the best environmental, social and good governance practices that allow them to generate corporate value (Duque-Grisales & Aguilera-Caracuel, 2019). However, in the Colombian case, these types of practices are not very common within companies, since entrepreneurs do not see a real need to invest in improving their CSR strategies; they do not consider relevant their inclusion in organizational policies. This possibly occurs due to the lack of information (in the Colombian context) about the effect that the implementation of socially responsible practices may have on corporate financial results.

In recent years, numerous studies have attempted to determine the relationship between CSR factors and the financial performance of companies (Allouche & Laroche, 2005; Atan et al., 2016; Balatbat et al., 2012; Duque-Grisales & Aguilera -Caracuel, 2019; Elsayed & Paton, 2005), the results being controversial. Some of these studies have found a negative result (Brammer & Pavelin, 2006). Otherwise, several studies have shown a positive association (Cahan et al., 2015; Fatemi et al., 2015; Orlitzky et al., 2003). Additionally, other studies that analyze the relationship between CSR and financial performance do not show a significant relationship (Hull & Rothenberg, 2008). All those studies were carried out in companies in developed countries. However, it is not clear what the impact of this relationship is on companies in emerging countries such as Colombia. Although it is an interesting and topical area, there are just a few empirical studies of CSR in Colombia.

Thus, according to the literature review, there is an open debate and, this study intends to provide evidence of the relationship between Corporate Social Responsibility and financial performance by assessing the stock market's reaction based on the analysis of news involving awards, acknowledgements, initiatives, or positive / negative issues associated with CSR of the Colombian companies listed in the local Stock Exchange. This work represents an important contribution to the existing literature on CSR in emerging Latin American countries, which are increasingly including environmental, social, and good governance policies in their business strategies. In this sense, this article uses the study of events to estimate the market value using CSR news. A statistically significant market reaction to CSR event announcements would indicate a causal link. Event studies have previously been used in the literature to determine the impacts of events related to CSR aspects (Arya & Zhang, 2009; Jacobs et al., 2010) and environmental aspects (Atan et al., 2016) among others.

The rest of the work is structured as follows: after the introduction, section 1 presents the literature review of the empirical works that analyze the relationship between CSR and financial performance. Section 2 presents the methodology used in this study. In the next section, the obtained results are analyzed. Finally, a concluding section is presented with the final comments, reflections, limitations and possible future developments.

2. LITERATURE REVIEW

The new conditions in economy and markets force organizations to care more about the environment and society. In this new scenery, organizations face the challenge of creating value but with an active commitment to the different aspects of corporate social responsibility (Arslan et al., 2011; Moneva & Ortas, 2009; Mossalanejad, 2011). Chase-Dunn (1998), president of Business for Social Responsibility (BSR), declares that being socially responsible is one of the pillars of sustaining business, as important as quality, technology, and the capacity for innovation. Thus, when a company is socially responsible, it attracts consumers and increases sales, generating more profit for its shareholders. It is also a sign of corporate reputation and adds value to the brand.

Studies by Porter & Van der Linde (1995) point out a positive and significant relationship between CSR and financial performance. This positive relationship is based on the fact that, if a company acts on its social and environmental responsibilities, it is acting in the sense of gaining reliability in the market, which would increase financial performance. In this same sense, Mahoney & Roberts (2007) detail that institutional investors are attentive to how companies handle dimensions related to CSR, so that they invest more in companies that have a higher degree of commitment to social causes and environmental.

Likewise, some authors highlight the importance of CSR in organizational reputation and, how designing effective CSR strategies can help companies achieve superior financial benefits (Klassen & McLaughlin, 1996). Given the current market conditions, companies must not only worry about financial management but also about positioning themselves in the global market to be able to meet all their customer and investors' needs as the core of economic and social growth (Moreno & Yoldi, 2009). Dowell et al. (2000) also point out that developing and maintaining strict environmental management standards can bring positive effects on corporate reputation.

On the other hand, the importance of publishing reports and providing information to the public about the CSR activities carried out by companies is highlighted; this, in order to show their special effort and commitment to improve transparency regarding long-term performance (Dhaliwal et al., 2011). Companies that provide evidence of the social welfare benefits generated by their CSR initiatives can shape shareholder perceptions over time. At the same time, the failure of CSR processes to produce comprehensive results can lead to negative reactions from investors (Arya & Zhang, 2009).

In the Colombian case, CSR is highlighted as an important component of business activity. According to Gutiérrez et al. (2006), companies that adopt social initiatives, strategies, and practices (as their capacity to innovate and contribute to the interest groups' social needs) achieve greater recognition and reputation. Other authors also highlight that CSR is a key strategy for corporate growth, positioning, reputation, and credibility since, currently, communities are very interested in companies that seek to reduce the environmental effects and

strengthen social inclusion (Aguilera Castro & Puerto Becerra, 2012). According to the authors, this makes it essential for companies to adopt CSR, obtaining mutual benefits in the midterm.

3. METHODOLOGY

This research's methodology is exploratory, which seeks to examine the abnormal returns of the shares around the CSR initiatives of companies listed on the Colombian Stock Exchange (BVC). Several criteria were used to define the corporate sample. First, companies that belong to the financial, commercial, industrial and investment sectors with Corporate Social Responsibility reports and that are listed on the Colombian Stock Exchange (BVC) were considered. In total, there were 18 companies that represent 26.5% of the companies listed on the (BVC). Second, the 18 companies that were chosen for the study provided sufficient financial and CSR information; there were available data for the 2016-2019 study period.

Following similar studies (Arya & Zhang, 2009; Jacobs et al., 2010), this project used the event study method. This is based on the assumption that, the new information introduced to the market will provoke an immediate reaction from investors. For this article, an event is the announcement of a company on its issues related to CSR practices. Given that market participants expect announcements to have a positive (or negative) effect, positive (or negative) returns are expected on corporate listing. As a first step, CSR events were identified by collecting information on CSR initiatives published in sustainability reports (Global Reporting Initiative - GRI, Thompsons Reuters), in economic and financial newspapers (Investing, La República, Portafolio) and on each of the sampled companies' websites. The announcement effect is analyzed in a 5-day window (2 days before the event, during the event, and two days after the event). In previous research, short window lengths have been recommended for the study of events in order to minimize the influence of other factors on the analyzed phenomenon (McWilliams & Siegel, 1997) (McWilliams and Siegel, 1997). This marks a relation between the announcement and the shares' behavior. The final sample consisted of 87 events.

The share price of each of the companies listed on the BVC (which make up the COLCAP Index), were consulted in the Colombian Stock Exchange' site. From these prices, technical analyzes were carried out to determine the impact of the announcement on each share's value.

In accordance with most event studies, the "market model" was used to estimate abnormal returns (Jacobs et al., 2010). This model postulates a linear relationship between the performance of a stock and the performance of the market (that is, the performance of the market portfolio) over a given period of time as:

$$R_{it} = \alpha_i + \beta_i * R_{mt} + \varepsilon_{it} \quad (1)$$

where R_{it} is the i share's return on day t ; R_{mt} is the market return on day t . α_i is the intersection of the relationship for the i share; β_i is the i share's relationship slope with respect to market return, and ε_{it} is the error term for i stock on day t . The term $\beta_i * R_{mt}$ is equity performance part attributable to market movements.

4. RESULTS AND / OR FINDINGS

Once the information was compiled using the exploration methodology, the announcement data was systematized by dividing it into either positive or negative contexts and then, the announcement's trend on shares values was defined; for this, three factors were assigned such as: upward, downward, or consolidated trend in each context. (See Table 1).

Table 1. Announcement summary

Total Announcements	87
Companies	18

Context	Trend	Announcements
Positive	upward	27
	downward	40
	consolidated	12
Negative	upward	2
	downward	5
	consolidated	1

Source: own elaboration.

The results obtained show that, from the 18 companies listed in the COLCAP Index of the Colombian Stock Exchange, 87 announcements were obtained with information related to CSR; 79 announcements (equivalent to 90.8%) offered a positive context. Both, the announcement’s content, and the impact on CSR were in favor of the community or their companies. On the other hand, there were 8 announcements (equivalent to 9.8%) that presented a negative impact on CSR.

27 of the announcements caused an upward effect on the 18 selected companies’ shares. Likewise, 40 announcements caused a downward trend in the value of the shares and, only 12 announcements made the value of the shares stable. This is according to the positive context.

On the other hand, 2 announcements caused an upward trend in the value of their shares despite their negative context; then 5 with a downward trend and, 1 announcement maintained its stable effect on value, despite the negative outlook.

After analyzing the announcements effects and their impact on the share value, the companies were classified by economic sector; 8 sectors were identified: insurance, food, telecommunications, retail, energy & mining, financial, cement, and energy.

This analysis was performed in order to identify which sectors of the economy became strong when they employ CSR policies. (See table 2)

Table 2. Announcement summary by sectors

SECTORS							
			Announcements				Announcements
Food	Positive	Upward	1	Cement	Positive	Upward	2
		Downward	3			Downward	4
		Consolidated	1			Consolidated	4
	Negative	Upward			Negative	Upward	
		Downward				Downward	
		Consolidated				Consolidated	
Energy	Positive	Upward	6	Finance	Positive	Upward	7
		Downward	9			Downward	14

		Consolidated	3			Consolidated	1
	Negative	Upward	1		Negative	Upward	1
		Downward				Downward	
		Consolidated				Consolidated	
Mining & energy	Positive	Upward	4	Positive	Upward	3	
		Downward	2		Downward	2	
		Consolidated	3		Consolidated		
	Negative	Upward	1	Negative	Upward		
		Downward	4		Downward		
		Consolidated	1		Consolidated		
Insurance	Positive	Upward	2	Positive	Upward	2	
		Downward	3		Downward	3	
		Consolidated			Consolidated		
	Negative	Upward		Negative	Upward		
		Downward			Downward		
		Consolidated			Consolidated		
		Upward			Consolidated		
Telecommunication	Positive	Upward		Positive	Upward		
		Downward			Downward		
		Consolidated			Consolidated		
	Negative	Upward		Negative	Upward		
		Downward			Downward		
		Consolidated			Consolidated		
		Upward			Consolidated		

Source: own elaboration

The food sector evidences that the announcements within a positive context regarding CSR practices are predominant with a total of 5 events; 60% of those (equivalent to 3 announcements) present a downward trend. The remaining 40% show an upward trend, and other announcement remains stable. The same behavior was also observed in the retail, insurance and telecommunications sectors, where the prevailing context is the positive and a clear downward trend is observed in the last ones, since both sectors present a total of 3 news equivalent to 60% compared to 40% that is reflected in 2 announcements that affect an upward trend.

In the financial sector, 15 announcements out of 23 (that is the 65.2%) negatively affected (downward trend) the share value despite the banks' commitment towards CSR. In contrast, 7 events (30.4%) caused an upward trend in the share price, and 1 event (4.4%) kept the price stable.

Something similar happened in the energy sector where, 6 events (equivalent to 31.5%) identified as positive in the use of CSR policies caused the value of shares to increase; that, in comparison to 52.6% (10 announcements) where this incidence caused the value of the shares to fall. The remaining 15.9% (equivalent to 3 events) showed that the share value was consolidated.

Although a downward trend in the value of shares is predominant in the different sectors, it can be observed that in sectors such as mining and energy, 5 announcements were found to have a clear upward trend equivalent to 33.3%. A 40% (represented by 6 announcements) negatively affected the share value and 26.7% did not show changes (4 announcements).

A study carried out by Bureau, for Ecopetrol showed that 80 gas stations of different brands sells cleaner diesel and very good quality gasoline; therefore, it improves air quality in Antioquia. This represented a positive news, and its effect was evidenced by its share price increase in the following days.

The following graphs show the three significant trends in this exploratory research.

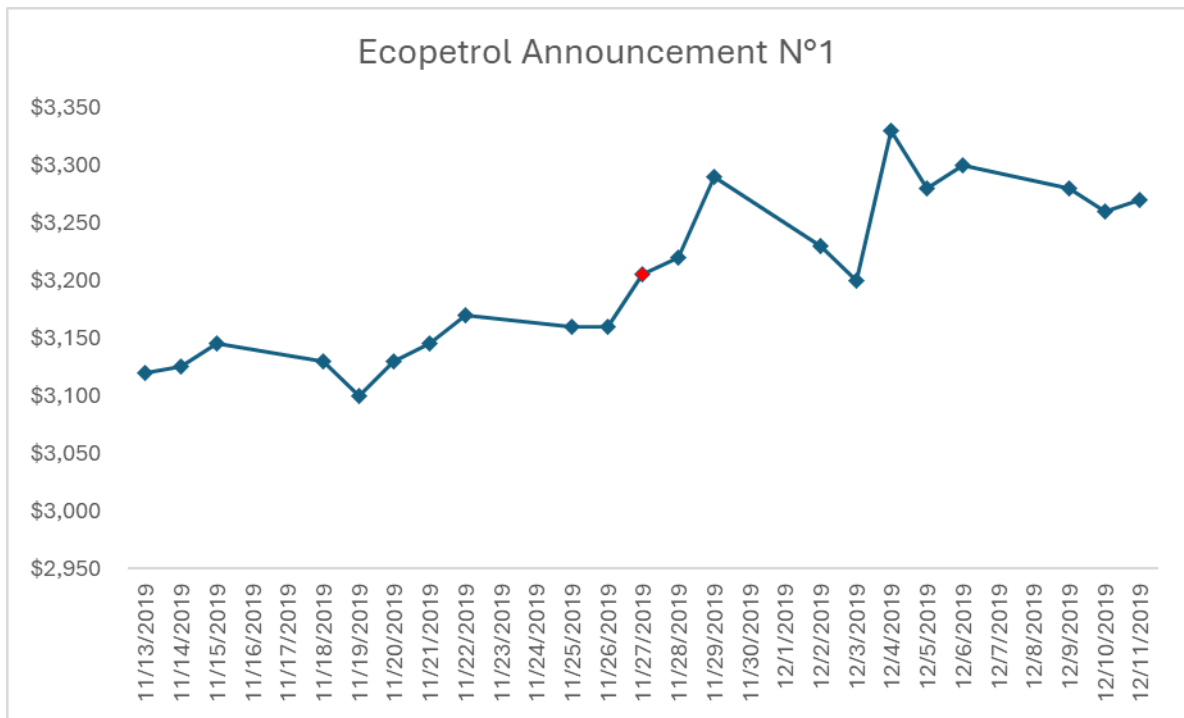


Figure 1. Announcement Title: "Fuels in Medellín and the Aburrá Valley are clean and safe, according to Ecopetrol".

In 2017, Colombia's approved natural gas reserves accounted for 11.9 years and its total reserves for 15.9. For this to continue, new processes such as fracking for exploration and exploitation must be in place. That information was negative; people did not agree with that process, therefore, it got reflected in its share price decline.

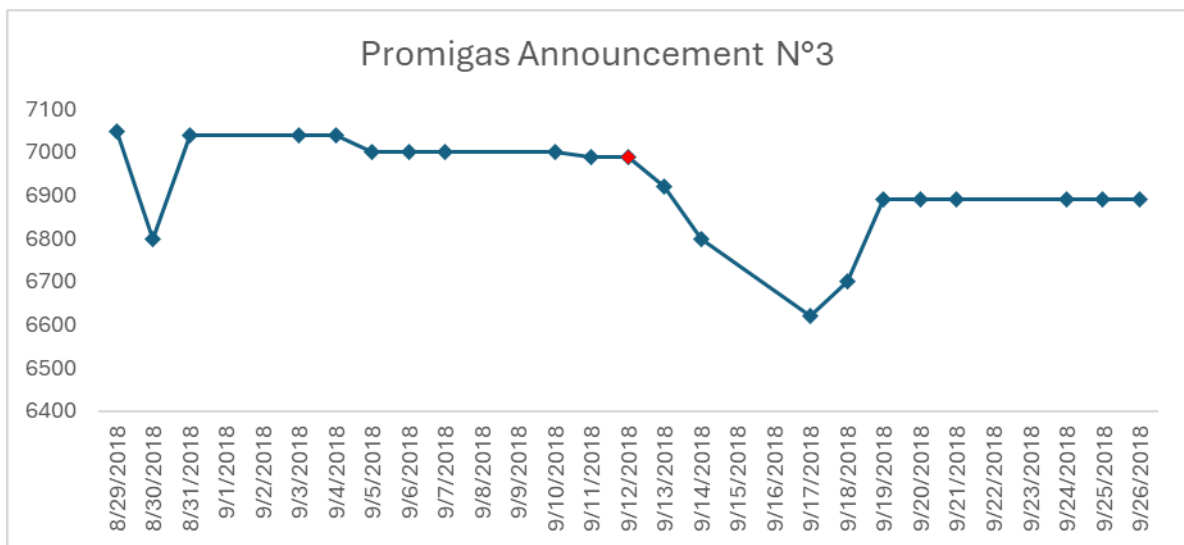


Figure 2. Announcement Title: "Concern for uncertainty in natural gas supply".

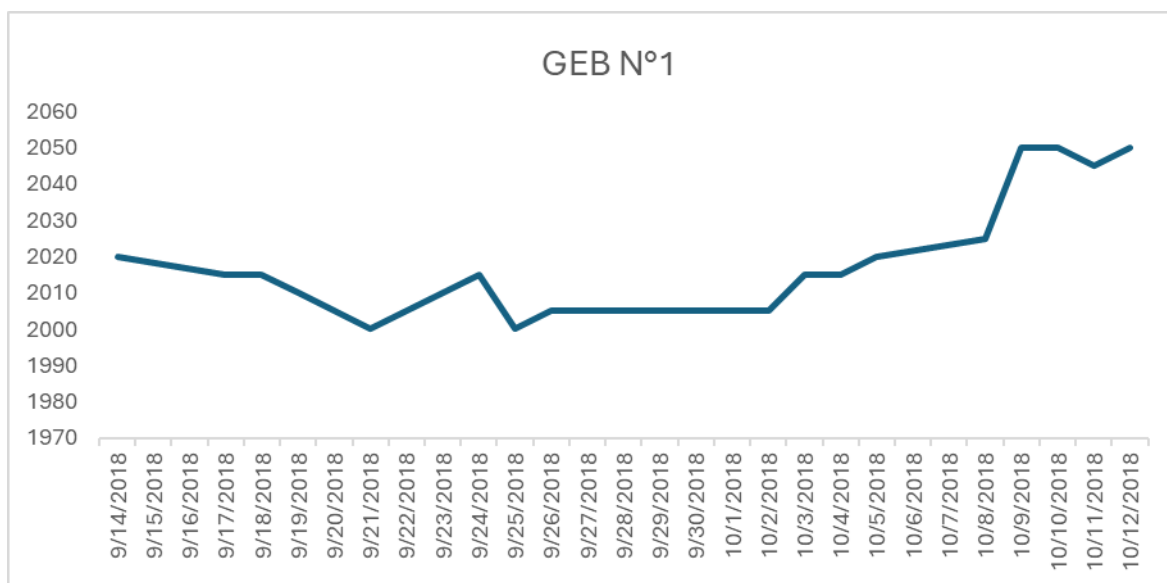


Figure 3. Announcement Title: "The Bogotá Energy Group (GEB) inaugurated a line for electricity service in the Caribbean".

Grupo de Energía Bogotá (GEB) delivered the second Bolívar-Cartagena transmission line, which according to the company "will benefit more than 2 million inhabitants of the region." The announcement is positive but for investors, it did not have much impact, it led to a consolidated trend that day.

CONCLUSIONS AND / OR RECOMMENDATIONS

This research's findings suggest that, although there is evidence to show a positive relationship between social performance and financial performance, managers' expectations and motivations in terms of Corporate Social Responsibility can bring different levels of organizational commitment. Therefore, it is imperative to make a call to today's organizations, to executives and board of directors' members to implement CSR strategies that allow measuring, monitoring, and evaluating processes and activities. These measures would help provide positive or negative indicators in terms of financial performance, strategic planning, and a better understanding of what it means to integrate CSR in organizations.

It can be observed that the activities carried out by companies in terms of corporate social responsibility are very important for Colombia. These activities favor the most vulnerable and unprotected communities. This evidences that these companies have good intentions to contribute to the social, environmental, and cultural spheres.

As future work, it is proposed to extend studies of social responsibility not only to the business sector but also to higher education institutions and analyze intellectual capital (Londoño et al., 2021) and its influence on social responsibility. In addition, a framework based on JDL data fusion model and information quality could provide a comprehensive assessment of social responsibility with traceability of information, and situation and impact/risk assessment taking into account data quality (Becerra et al. 2018; Becerra et al. 2021).

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