

The Social Disclosure Impact on Corporate Financial Performance: Case of Big French Companies

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ABSTRACT:

The purpose of this paper is to investigate the impact of voluntary disclosure about corporate social responsibility (CSR)¹ on firm's financial performance. First, a state of the art about corporate social responsibility and social reporting is presented. After that, the problems of measurement of CSR are indicated and the hypotheses are proposed.

In the empirical analysis, regression models are developed to test the impact of social reporting on return on assets (ROA)² and return on equity (ROE)³, over a period of 11 years from 2000 to 2010 for 201 big French companies. The results showed that there is no significant relation between CSR disclosure and financial performance for French companies, but a positive effect of time on this relation is discerned when there is a lag of one year for the observations. The contribution of this work to the CSR literature is the elucidation of temporal impact of social and environmental disclosure on firm's value.

Keywords: Extra-financial divulgation, Corporate Social Responsibility, Financial performance, Regression model

INTRODUCTION

The globalization and the various scandals and crises in the business world have led to new forms of regulation such as charters and codes of ethics and prompted investors to look for criteria other than those related to simple returns, profitability and financial risks. Furthermore, many governmental initiatives concerning climate, water, pollution, sustainable development, micro credit, Consumers' attitudes about ecological consumption and the debate on stakeholders' interests have led investors to rethink their strategies to be more moral and they become more and more interested in ethical, social and

sustainable development. In fact, from the mid-1990s, and especially from 2000 onwards, the socially responsible investment market was growing rapidly. This investment process which integrates social, environmental, and ethical considerations into investment decision making (Renneboog et al., 2008) is becoming increasingly popular in financial markets (Hoffman et al., 2007).

At the company level, managers seek to understand whether (and how) Corporate Social Responsibility (CSR) can be operationalized not only to meet social responsibility goals but also

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CSR: Corporate Social Responsibility
ROA: Return on Assets
ROE: Return on Equity

to act for the interests of shareholders (Derwall, 2007). Researchers try to tackle the problems of defining and evaluating the multidimensional construct of CSR (Waddock and Graves, 1997), so that they can explain the relation between this ambiguous concept and the firm's financial performance. Actually, many studies try to examine this relationship. Theoretical framework presents two opposite points of view. Traditional one advanced by Friedman (1970) notices that CSR is costly to the firm and shareholders' interests must be the most considerable for managers so the relation between CSR and financial performance must be negative. The stakeholder theory, on the contrary, supports the positive relation between CSR and financial performance (see for instance Freeman (1984); Donaldson and Preston (1995)).

Empirical studies try to explain and test theoretical assumptions. Alexander and Buchholz (1978) and Moskowitz (1972) are reporting positive relations between CSR and financial performance. Negative relations were perceived by Auperle and Van Pham (1989) and Friedman (1970). Other results presented by Ullman (1985) for example show neutral correlation between CSR and financial performance. These discrepancies are explained in large part by methodological anomalies that surround the attempts to measure CSR and financial performance (Griffin and Mahon, 1997; McWilliams and Siegel, 2000; Griffin, 2000; Margolis and Walsh, 2003).

This paper attempts to enrich the literature by studying the impact of the voluntary disclosure about CSR activities on financial performance in order to check if this practice can somehow contribute to the firm's value creation. The empirical analysis aims to examine the impact of the extra-financial divulgation on two accounting results (namely: ROA (Return on Assets) and ROE (Return on Equity)) considering a sample of 201 big French companies.

In the next section and by a literature review; CSR, social reporting definitions and some relevant regulations are presented. An analysis of the theoretical framework about the relationship between CSR, extra-financial divulgation and financial performance will be developed.

Literature Review

Corporate Social Responsibility (CSR)

The social responsibility as presented by Friedman (1970) is "to increase business profits". This traditional view of CSR was largely deviated since firms are interested in environmental and social issues in addition to economical imperatives. Many authors like Ducassy and Jeannicot (2008) find that CSR is the equivalent of the Sustainability development in microeconomic context. CSR is defined by European commission¹ as "*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*"

CSR associates social, environmental and economic criteria to the voluntary action of the firm. Nowadays, it is a management strategy that meets the demands of financial markets. It is well known that CSR is theoretically linked to stakeholder theory which leads managers to take into consideration all internal and external actors of the firm (Freeman, 1984; Donaldson and Preston, 1995; Margolis and Walsh, 2003). This concept knows a big governmental and institutional interest looking that it is linked to the sustainable development. It attracts also since three decades academic world attention.

Social Reporting

CSR report is the objective description of social and environmental activities so that stakeholders can use it reliably to evaluate the performance of the company's social responsibility. Ramanathan (1976) and Global Reporting Initiative (2006) suggest that CSR reporting should quantify the overall social and environmental effects of the company's activities. CSR disclosure become a key strategy issue for companies (Déjean and Gond, 2004; Ducassy and Jeannicot, 2008).

Beretta and Bozzolan (2004) affirm that most important listed companies recognize an increased demand for disclosure, since the beginning of 2000's. The authors mention that the failures of large companies listed on the most important stock exchanges led to extra pressure on standard setters to enhance the quality of corporate reporting.

1- European Commission (2001), Green paper, p. 5

Governments and intergovernmental bodies like the United Nations, the Organization for Economic Cooperation and Development (OECD)¹ and the International Labor Organization, have developed declarations, guidelines, principles and other instruments which expose outline the social norms for acceptable conduct of firms. Over the past decade, a number of national governments in USA and Europe have passed a series of regulations on social and environmental investments. In fact, many regulations and laws require companies to share some of their practices and CSR activities with the public through the dissemination of non-financial information.

The GRI² which is a voluntary initiative, opened by NGOs [1], universities, consulting firms and companies in 1997, has implemented a set of rules for sustainability reporting defining the guidelines to help companies to produce the social, economic and environmental information resulting from their activities, products and services. The Global Reporting Initiative's Sustainability Reporting Guidelines, state, "*A primary goal of reporting is to contribute to an ongoing stakeholder dialogue. Reports alone provide little value if they fail to inform stakeholders or support a dialogue that influences the decisions and behavior of both the reporting organization and its stakeholders*" (Global Reporting Initiative, 2002: 9)

In the European context, the foundations of the European Commission policies for social reporting have been cited in the Green Paper in 2001. These policies are part of a recommendations process inviting companies to disseminate information on sustainable development but not regulatory one. In 1995, the Danish Parliament adopted the Green Account Act. This law is intended to encourage companies to publish an environmental report. In the Netherlands, since 1997, the parliament requires the release of a reporting concerning environmental issues to a certain class of business.

France has imposed through Article 116 of the NRE [2] the obligation of the French law for listed companies to include in their annual reports a set of information on social and

environmental consequences of their activities. In fact, this law did not specify the legal liability of directors for non implementation of this obligation. Ducassy and Jeannicot (2008) ask if the pressure of financial markets could be an instrument of regulation so that firms and their managers meet this legal framework. Indeed, many studies were interested in the French context concerning the relationship between CSR and financial performance using ratings of agencies like Vigeo [3]. But few studies investigated the relation between extra-financial divulgation and value creation. (See for instance Ducassy and Jeannicot (2008); Déjan and Martinez (2009) among others).

CSR, Extra-Financial Disclosure and Financial Performance

Literature as a whole recognizes an ambiguous relationship between corporate social responsibility and financial performance. The most representative studies in this area are those of Jones and Wicks (1999), Donaldson and Dunfee (1999), Berman et al. (1999), McWilliams and Siegel (2000, 2001), Margolis and Walsh (2003) and Allouche and Laroche (2006). In fact, Margolis and Walsh (2001) provide a summary to the review of 95 studies on the relationship between CSR and financial performance for the period from 1971 to 2000, the first study being published in 1971 by Narver. The paper of Margolis and Walsh in 2003 shows that about 50 of the 122 studies attached to the torque Social Performance/ Financial Performance attest a positive relationship. In the same context, Allouche and Laroche (2006) identified the results of 93 empirical studies on the relationship between financial performance and social responsibility. The greatest part of these studies analyzed (49 from 93 studies which makes 52.68%) shows a positive relationship between social performance and financial performance, whatever the financial criteria used.

Many studies argue that CSR has a positive impact on financial performance through the satisfaction of stakeholders' goals (Freeman, 1984) and the improvement of public image and firm's reputation (Waddock and Graves, 1997).

1- OECD: Organization for Economic Cooperation and Development

2- GRI: Global Reporting Initiative

Orlitzky (2008) concludes in his study that “*CSR helps improve managerial knowledge and skills and enhance corporate reputation*”.

A negative link is established by Friedman (1970). He believes that CSR is very costly and reduces the firm's competitiveness and its financial performance. Quazi (2003) and Lantos (2001) argue this evidence and demonstrate it by the “invisible hand” mechanism where the pursuit of profit would lead to socially desired outcomes; see for instance Melo and Galan (2011).

McWilliams and Siegel (2001) argue for no relationship between CSR and financial performance. Tsoutsoura (2004) thinks that the lack of consensus of measurement methodology as it relates to corporate social performance complicates the relation between CSR and financial performance. Allouche and Laroche (2006) explain the difficulty to find a direct link by limits concerning concepts, methodologies and data used. In fact, five approaches are known to measuring CSR; namely the content of annual reports, pollution indicators, questionnaire surveys, indicators of reputation and the data produced by specialized agencies (Igalens and Gond, 2003).

Many authors chose as a measure of CSR the extra-financial divulgation and show that the relation between CSR disclosure and financial performance can be also positive, negative or there can be no relation.

Bowman and Haire (1976) and Preston (1978) compare the ROE (Return on Equity) of companies publishing social reports and those that do not. The results show that companies divulging social information has significantly higher ROE. Moreover Roberts (1992) identifies positive relationship between the level of profit and dissemination of social information. Freedman and Jaggi (1982), Cowen et al. (1987) studied the relationship between social reporting and accounting performance indicators such as ROA (Return on Assets). Their studies fail to confirm the proposed relationship. These controversial results are often explained by CSR measurement problems.

CSR Measurement Problems and Research Questions Problems of CSR Measurements

There are in addition to the semantic problem concerning CSR, the difficulties to measure this

concept which can lead to real confusion. The question that arises in most researches on CSR concerned the methodology to quantify it. It seems difficult for managers to determine the key performance indicators of the social responsibility (Fiori et al., 2007) because CSR reflects an approach to internal decision making, so its presence or absence may not easily be determined by external observers.

Igalens and Gond (2003) identify five approaches to measuring social performance namely: the content of annual reports, pollution indicators, questionnaire surveys, indicators of reputation and the data produced by specialized agencies. The most known agencies are KLD in USA, Oekom in Germany, Triodos in the Netherlands, Eiris in Great Britain, Avanzi in Italy, BMJ Ratings, Vigeo, Ethifinance and diversum SAS in France.

In fact, CSR indicators aim to provide social investors accurate information that makes transparent the extent to which firms' behaviors are socially responsible (Chatterji et al., 2007). These indicators must be used to measure business performance and to assess their willingness to tackle ecological, social and societal problems.

Audit firms have started timidly in the reliability of figures through external audits following initiatives such as the GRI (Global Reporting Initiative) to compete more reliable figures. But as in the financial field, the question of the legitimacy of the standards' producer was raised. The most important tools used by agencies to decide firms' social ranks are their annual reports, sustainability reports, environmental reports, or corporate social responsibility reports in addition to their financial indicators, and via interviews with managers.

Regarding the social information, the common assumption in this field assumes that the efforts of companies in CSR are primarily motivated by a question of image, which may ultimately have an impact on securities demand and financial performance of the firm. In this context, one can argue that the firm's communication about CSR plays certainly more important role than the implementation itself of such policy. In other words, it is less about whether the firm is actually part of a CSR approach than measuring its ability to

communicate its social information to the public. That is why, among all the possible methodological choices, the interest in this work is focused on studying the impact of an extra-financial divulgation on firm's financial performance.

So this study will focus on the CSR reports as a proxy of social performance. In fact, Gray et al. (1995) argue that larger, more profitable and more socially and environmentally sensitive firms can be expected to make greater use of the voluntary disclosure of information about their social and environmental activities. Lungu et al. (2011) consider reporting as an important communication tool, which can ensure greater corporate transparency and enable a better engagement with stakeholders.

The main question this work is trying to answer is the following:

Is there any relation existing between the social reporting and the firm's financial performance?

Hypothesis

✓ **Impact of Social Reporting on Firm's Financial Performance**

As said previously, there is no consent concerning the impact of CSR on financial performance. Empirical literature recognizes positive, negative and neutral relation.

Margolis and Walch (2001), in a review of 95 experimental studies, came to the conclusion that in some cases corporate social responsibility has been considered as an independent variable; in 42 studies (53%) this variable has a positive relationship with financial performance, in 19 studies (24%) the relationship is neutral, and in 4 studies (5%) the relationship is negative.

Similarly, results of meta-analysis of McWilliams and Siegel (2001) and Allouche and Laroche (2006) prove that more than 50% of literature studying the relation between CSR and financial performance are positive. Van de Velde et al. (2005) came as well to the conclusion that there is a positive relationship between CSR and firm financial performance.

Most studies examining the relationship between social reporting and financial performance show also a positive relationship (Bowman and Haire, 1976; Preston, 1978; Roberts, 1992). Following these studies and

trying to check those results, the first hypothesis to be tested is as follows:

H1: Social and environmental performance has an immediate positive impact on financial performance.

Due to the nature of this empirical study, this first assumption is divided into two other ones as follow:

H1a: There is a positive relationship between the CSR disclosure and the return on assets (ROA).

H1b: There is a positive relationship between the CSR disclosure and return on equity (ROE).

✓ **The Time Effect on the Relationship between Social Reporting and Financial Performance**

Theoretical framework and even empirical studies discuss further the temporal issue in the relation between CSR and firm financial performance. CSR Literature reveals mostly ambiguous results when studying the impact of CSR on firm financial performance in the same year. Peter and Mullens (2009) criticize the results given by an immediate study of the CSR effect on firm financial performance. They use time series data to empirically analyze the cumulative effect of CSR on future financial firm performance. Their analysis provides *evidence that time-based, cumulative effects of CSR on firm financial performance are positive and strengthen over time.*

In the same context, Porter and Miles (2012) suggest by their findings *the existence of a long-term "halo" effect in CSR-committed companies, whereby responsible behavior in the CSR arena is positively associated with other positive aspects of firm operations, including financial performance and a lack of evidence of "greenwashing".*

Melo and Galan (2011) demonstrate the long term effect of CSR on firm financial performance by supposing CSR as a source of competitive advantage and an intangible asset. In order to contribute to the demonstration of the temporal effect of CSR and especially social reporting on firm financial performance, the following hypothesis will be tested:

H2: Time has a positive impact on the relation between social and environmental performance and financial performance.

To deepen the debate and to test the assumption that CSR has a positive impact on financial performance, the empirical study aim to answer the following questions:

- ✓ Do publishing CSR reports have an immediate positive impact on firm's financial results?
- ✓ Does Time affect positively the relation between CSR disclosure and firm's financial performance?

In order to answer these questions and test our hypothesis, regression models will be developed.

RESEARCH METHOD AND MODELS

In this section, regression models with two derivatives are presented. In fact, social reporting as a dummy variable and other control variables are regressed on two accounting-based values (ROA for model 1a, and ROE form model 1b). To detect the temporal effect in the relation of social reporting and financial performance, one year lag is considered in models 2a and 2b.

The linear regression models used are the following:

$$\text{Model 1a: } ROA_{i,t} = \beta_0 + \beta_1 CSR_{i,t} + \beta_2 LEV_{i,t} + \beta_3 \theta TA_{i,t} + \alpha_i + \mu_{i,t}$$

$$\text{Model 2a: } ROE_{i,t} = \beta_0 + \beta_1 CSR_{i,t} + \beta_2 LEV_{i,t} + \beta_3 \theta TA_{i,t} + \alpha_i + \mu_{i,t}$$

Models with one-year lag are as follow:

$$\text{Model 1b: } ROA_{i,t} = \beta_0 + \beta_1 CSR_{i,t-1} + \beta_2 LEV_{i,t-1} + \beta_3 \theta TA_{i,t-1} + \alpha_i + \mu_{i,t}$$

$$\text{Model 2b: } ROE_{i,t} = \beta_0 + \beta_1 CSR_{i,t-1} + \beta_2 LEV_{i,t-1} + \beta_3 \theta TA_{i,t-1} + \alpha_i + \mu_{i,t}$$

Where:

- ✓ ROA is the Return on Assets
- ✓ ROE is the Return on Equity
- ✓ CSR is a binary variable related to extra-financial disclosure
- ✓ LEV is the Debt/Equity ratio;
- ✓ θTA is the Logarithme of Total Assets.

The longitudinal regressions used consider both cross-section and temporal series calling for

the panel data methodology. This technique allows assessing the risk of unobserved heterogeneity on managers' perception of social responsibility (Melo and Galan, 2011). In the presence of panel data, both standard estimation methods are the fixed effects model and random effects model because they control the unobserved characteristics of firms that may influence performance. Specifically, these estimators capture unobserved heterogeneity by adding specific error terms which can be fixed over time (fixed effects model) or randomly vary over time (random effects heterogeneity random) for each firm (Baltagi, 1995; Greene, 2000). Hausman test is applied to choose between fixed effects and random effects linear regressions. To correct the heteroscedasticity, the White's method is preferred. The regression analysis will be performed on a cross-sectional basis and on the 8844 firm-year observations.

In the following section, the variables and the sample used for the different models and tests are presented.

Variables and Sample

✓ Dependant Variables

Return on Assets (ROA) and Return on Equity (ROE) are the dependant variables for our models measuring the firm's financial performance. Melo and Galan (2011) assert that some authors differ on whether to use accounting-based or market-based indicators (McGuire et al., 1988). For this work and because of the specific nature of the independent variable which is the social and environmental reporting, it is decided to use accounting-based indicators. In fact, publishing social and environmental reports represent a kind of communication influencing the stakeholders especially consumers and investors. Nevertheless, if CSR scores are used, it seems more logic to employ market-based indicators like stock price or MVA (Market value added), because ratings are easier to capture by investors than by other stakeholders (Scholtens, 2008). In this study, it is adopted, as well; the idea that market measures and especially the market value carries a shareholder view of the performance that is inconsistent with the spirit of CSR seeks to maximize stakeholder value and not just shareholder value.

In addition, accounting provides decision-makers, both inside and outside the company, with relevant and reliable information on the costs and benefits to support decision making (Balakrishnan et al., 2009). Externally, investors use accounting information for shares acquisition and disposition decisions, and banks use it to make lending decisions. Internally, accounting supports decisions covering the value chain, starting from the procurement of materials, ranging from the promotion of products and through the pricing and after sales services determination (Spinkle and Maines, 2010).

Return on assets (ROA) represents the amount of earnings a company can achieve for each unit of assets it controls. This gives an idea about the effectiveness of the company management to generate incomes by using those assets. ROA is a good indicator of a firm's profitability. It was used as a proxy of financial performance by McGuire et al. (1988), Waddock and Graves (1997), Griffin and Mahon (1997), Preston and O'Bannon (1997), Berman et al. (1999), Graves and Waddock (1999), Simpson and Kohers (2002).

Return on equity (ROE) measures how well a company uses reinvested earnings to generate additional earnings, giving a general indication of the company's efficiency. ROE was considered as a proxy of firm's financial performance by Bowman and Haire (1975), Griffin and Mahon (1997), Preston and O'Bannon (1997), Waddock and Graves (1997), Ruf et al. (2001), Seifert et al. (2003).

✓ Independent Variable

In the regression models, social reporting is used as the main independent variable to show its impact on ROA and ROE and therefore on firm's financial performance. In fact, companies can communicate their CSR information using advertising, annual reports, public relations and their websites (Gray et al., 1995). As in the study conducted by McWilliams and Siegel (2000), our measure of corporate social responsibility is a dummy variable. This variable has a value of one if the firm publishes a social report and 0 if it does not. Also Schnietz and Epstein (2005) measured the CSR reputation by a dummy

variable taking the value 1 if the firm is included in the index mutual fund Domini Social and 0 otherwise. Cardebat and Sirven (2010) used the same technique for the European context. Their approach was to observe the behavior of the company in respect to the social disclosure. According to the authors, it is possible to create a CSR dummy variable. The company which has an available report on www.corporateregister.com [4] in year t will take 1 point, 0 otherwise. Cardebat and Sirven (2010) explain their methodological option by the assumption of rationality, which states that the opportunity cost of not being in the world's largest website will be very high for a company that wants to improve its image concerning CSR.

In this study, it is considered that the company discloses non-financial information if a social or sustainability report is available on its official website or on another website interested in this type of information, such as corporateregister.com or developpementdurable.fr, or if the company devotes a part of its annual report to the description of its social and environmental activities. It is also chosen to consider any quote on sustainable development, social activities and good governance over 10 pages in the annual report as a CSR disclosure and thus denoted by 1. This choice was inspired by an empirical study in the French context developed by Chauvey and Giordano-Spring (2007), where they showed that 72 among 98 companies integrate their social reporting in the annual report and the number of pages of reports citing essentially the words "Social Corporate Responsibility" and "Sustainable Development" show more the performance of corporate communication. Their analysis shows as well that there is indeed a link between the publication volume and the degree of justification of the reporting quality (on average companies that publish the most have higher scores).

✓ Control Variables

Control variables are used for additional explanation. Size and leverage are selected to be the ones in this study.

Size: The argument advanced by Waddock and Graves (1997) to explain the relation between size and CSR is that large organizations

enroll more in social actions, against, small organizations do not carry great importance to the social activity. Burke et al. (1986) [cited by Waddock and Graves (1997)] suggested that larger the firm is, the more it gives attention to external factors and responds better to the demands of stakeholders. Stanwick and Stanwick (1998) find that size, measured by the volume of sales and total assets is positively related to CSR. Trotman and Bradley (1981) measure the size of the company by total assets and sales and show a positive relationship between this variable and the level of extra-financial divulgation.

Size is calculated in this work by the logarithm of total assets (Roberts and Dowling, 2002; Simpson and Kohers, 2002; Seifert et al., 2004; Hull and Rothenberg, 2008). Other measures are assimilated to size like total revenues (Hillman and Keim, 2001; Schnietz and Epstein, 2005; Brammer and Millington, 2008). Total assets variable is chosen because it presents no missing value in our sample.

Leverage: is used as a proxy of risk. In fact, leverage is considered as an important variable related to the governance structure and ownership. It's in of the variables that explain profitability in literature (Dowel et al., 2000). It is the ratio of net debt to shareholders' equity (Net debt / Equity). A negative relationship is supposed to exist between the leverage and the financial performance of the company motivated by the argument assuming that companies with a strong financial performance prefer not borrow.

The leverage can be negatively correlated with the social performance of a company, in the sense that highly leveraged firms are less able to make long-term investments needed to improve CSR performance (Dowell et al., 2000). This debt measure is referred to risk. In the literature, firms with a low risk undertake advantage in social activities, and vice versa. To Roberts (1992), firms with a low risk have a stable performance model, and therefore, this situation seems very favorable to investment in social activities.

Several authors such as Aupperle et al. (1985), McGuire et al. (1988), Waddock and Graves (1997) and Graves and Waddock (1999) show that socially Responsible firms are considered better managed and with insignificant risk.

✓ Sample

Even though the debate on CSR concept's globalization is becoming more important for scholars and practitioners (McWilliams, Siegel and Wright, 2006), it is chosen to focus the empirical analysis only on the French context, for two reasons. First there are important regulations regarding social reporting in France especially the NRE law (Nouvelles Régulations Economiques, 2001). Second, it is not clear how reporting activities on CSR vary across nations, due to different cultures, institutional environments and expectations of stakeholders (Maignan and Ralston, 2002; Chambers et al., 2003; Doh and Guay, 2006; Golob and Bartlett, 2007). Fiori et al. (2007) state that the perception about CSR practices is influenced by the economic and political context and by the traditions of the countries where the companies develop their business.

Our sample was composed in the beginning of 350 French companies. Firms that have less than 1000 employees are eliminated, and this choice was led by the evidence that big companies are disclosing more information and have to be more transparent vis-à-vis their stakeholders. Also financial firms were removed, because they have special financial statements. Furthermore, companies with no website are eliminated; it seems difficult to access to any of their information after a very detailed research on the internet. After all, panel data of 201 listed French companies having at least 1000 employees is used in our empirical analysis covering the period from 2000 to 2010. Accounting Data were collected from websites of firms and Orbis Database. The program used for the empirical tests is the STATA 12.

RESULTS

Summary Statistics

Table 1 shows that the number of reports increases from one year to another. The first significant slope was from 2001 to 2002 (increase by 250% of reports number) which can be explained by the influence of the 2001 Law (NRE) with its guidelines that encourage businesses to publish social and environmental reports. Since 2002, the number of reports is growing positively. In 2010, almost (2/3) of big French firms are publishing social reports, which

demonstrates the importance of this communication practice on CSR in France.

The number of total reports published from 2000 to 2010 for the sample of 201 French firms is 646 Reports. Chauvey and Giordano (2007) argue that information dissemination concerning societal practices increased very significantly for listed French companies in recent years. They believe that "social audit", which became mandatory since 1997 and NRE (2001) are essential factors in the evolution of social reporting practices in France. Qualitatively, companies that publish reports are almost large industries, essentially those of construction, food, aviation, hotel services, etc. Companies

that do not care too much to disclose sustainability reports are consulting and IT (information technology) firms.

Table 2 reports test specification (Hausman Test) and descriptive statistics (mean and standard deviation) of the different variables for the four models between 2000 and 2010.

The Hausman test is applied to show the correlation between the individual effects and the independent variables. The probability of the Hausman test is less than 10% for the four models (between 0 and 0.0051), which implies that the fixed effects model is preferable to the random effects model.

Table 1: Growth of CSR reports in France from 2000 to 2010

Year	Number of Total Reports	Percentage	Growth of Reports number
2000	2	0.99%	---
2001	4	1.98%	100%
2002	14	6.93%	250%
2003	28	13.86%	100%
2004	44	21.78%	57.14%
2005	52	25.74%	18.18%
2006	75	37.13%	44.23%
2007	87	43.07%	16.00%
2008	95	47.03%	9.20%
2009	112	55.45%	17.89%
2010	133	65.84%	18.75%

Table 2: Hausman test and descriptive statistics

	Model 1a*	Model 1b**	Model 1a***	Model 2b****
Chi2 for Hausman test-fixed x random effects.	12.80***	27.74***	19.98***	115.99***
(Prob > chi2)	(0.0051)	(0.0000)	(0.0002)	(0.0000)
	Mean (Std. Dev.)			
Y	-0.05019 (0.3955388)	0.0347716 (0.0979278)	-0.0096866 (.0186624)	0.0339652 (0.0982513)
CSR	0.3229308 (0.4677023)	0.3229308 (0.4677023)	0.2562189 (0.4366528)	0.2562189 (0.4366528)
LEV	3.257209 (16.34479)	3.257209 (16.34479)	3.385189 (17.10901)	3.385189 (17.10901)
Logta	5.953175 (0.9288006)	5.953175 (0.9288006)	5.938697 (0.9294645)	5.938697 (0.9294645)

* ROA ** ROE *** One-year lag on ROA **** One-year lag on ROE; *** represent significance levels of 10% thresholds; (Hausman Test: p<0.1, Fixed Effects Model).

Correlation and Regression Results

✓ Correlation Results

Table 3 shows the results of correlation between the variables in the models 1a and 1b are not significant, except the reporting and the size which are positively correlated.

Table 4 shows that results of correlation between the variables in the models 2a and 2b are also insignificant.

Since the results of correlations could not explain whether there is a relationship between financial performance and other variables in the models, regression results will further help in understanding this relationship.

✓ Regression Results

Table 5 reports regression results for models 1a, 1b, 2a and 2b. Models 2a and 2b are both with one year lag respectively on ROA and ROE.

For model 1a, the t-statistic of social reporting is 0.02, so the effect of CSR reporting on ROA is negligible and it can be assumed that there is no direct relationship between CSR reporting and ROA. This result coincides with

the evidence presented by McWilliams and Siegel (2001). For model 1b, the t-statistic of social reporting is (-0.33) so the impact of CSR reporting is negative but insignificant on the ROE. This result is similar to the thoughts of Teoh et al. (1999), Latos (2001) and Quazi (2003), but different from the results of most studies that have looked at the relationship between social reporting and ROE. Therefore H1 is rejected and it can be accepted that the disclosure of non-financial information has no impact on the financial performance of the company.

When the regression results are observed for model 2a and 2b, it is noted that the disclosure of non-financial information has a significantly positive effect on ROA for the model 2a with t-statistic of social reporting which is 3.16 (the 95% level). This result is consistent with the typical result of Waddock and Graves (1997) who found significant positive relationships between an index of CSP (corporate social performance) and performance measures such as ROA in the following year.

Table 3: Correlation results for models 1a and 1b

Variable	ROA	ROE	REP	LogTA	LEV
CSR	0.0253	0.0092	1.0000		
Log TA	-0.0318	0.0258	0.3790	1.0000	
LEVERAGE	-0.0259	-0.0894	-0.0378	0.0506	1.0000

Tableau 4: Correlation results for models 2a and 2b

Variable	ROA	ROE	REP	LogTA	LEV
REP	0.0894	0.0281	1.0000		
Log TA	-0.0087	0.0291	0.4185	1.0000	
LEVERAGE	-0.0630	-0.0349	-0.0301	0.0521	1.0000

Table 5: Regression results

		Model 1a	Model 1b	Model 2a	Model 2b
Number of observations		2211	2211	2010	2010
Number of companies		201	201	201	201
R-square		0.6542	0.1152	0.6663	0.1239
F from regression		1.65	0.85	5.35	0.48
(Prob> F)		(0.17770)	(0.4687)	(0.0011)	(0.6972)
REP	Std. Coef.	0.0000551	-0.0258432	0.0109929	0.1808683
	T-statistic	0.02	-0.33	3.16**	1.12
	p-values	0.987	0.743	0.002	0.261
Logta	Std. Coef.	0.0122376	0.3867694	-0.0309656	-0.1524406
	T-statistic	0.97	1.56	-3.47**	-0.55
	p-values	0.333	0.118	0.001	0.582
LEV	Std. Coef.	-0.0002294	0.0129974	-0.0000978	0.0076171
	T-statistic	-1.82**	-0.67	-1.21	1.03
	p-values	0.069	0.503	0.225	0.303

** represent significance levels of 5%

For the model 2b, there is a positive relationship between CSR reporting and ROE even if it is not very significant (t-statistic is 1.12.) These results reinforce the accumulation of empirical evidence of the positive impact of CSR on financial performance and confirm the second hypothesis by showing that time has a positive effect on the relationship between CSR reporting and financial performance. Empirical evidence is just provided concerning the long-term aspect of social and environmental reporting.

It can therefore be assumed that the adoption of CSR policies in the long-term has an impact on financial performance. This evidence is similar to the results presented by Melo and Galan (2011) and the proof of the positive temporal effect of CSR can be explained by the fact that investments in CSR have a great return in terms of image and overall, in terms of financial results. Melo and Galan (2011) explain that the benefits related to the adoption of a CSR policy, outweigh the associated costs. Other authors such as Peters and Mullen (2009) adopt further supporting to the long-term aspect of social responsibility. They assume that CSR is beneficial for the shareholders of a company and

stakeholders and therefore to the overall performance of the company. Thus the regressions used in this study confirm that the practice of social reporting and the adoption of a CSR policy as a long-term investment can positively affect the financial performance of the company.

The results clearly show that for the three models 1a, 1b and 2b, the size of the company has no significant relationship with financial performance. The model 2a captures a significant negative relationship between the size of the company and its financial performance. This result can be defended by the finding that firm size is generally correlated with equity dilution, lack of control and therefore a decrease in performance (Noubbigh, 2008). Regarding the leverage, the relationship evidenced by the model 1a is significantly negative with the ROA, which confirms the results of several previous studies such as those of Weir et al. (2002) that describe a negative relationship between financial performance and the debt ratio. The 1b and 2a models also show a negative but insignificant relationship respectively between the leverage and ROE for 1b and ROA with a lag of one year (one year lag) for 2a. The model

2b shows a positive but not significant relationship, which is also consistent with the results of some studies estimating that debt positively affects the profitability of the company.

CONCLUSION

Corporate social responsibility is becoming a very important issue in business management. Theoretical and empirical literature was focused many years ago on studying the impact of CSR on financial performance. Results were ambiguous and still not clear yet if the relation is positive, negative or there is no link (Williams and Siegel, 2001; Orlitzky et al., 2003; Wu, 2006). It is attempted, in this study, to add clarity to the understanding of this relation between CSR and firm financial performance by investigating the impact of the CSR reporting on firm financial performance.

Examining the impact of social reporting on accounting performance measures gives us the first empirical evidence that financial performance of French firms is not immediately affected by CSR reports.

The contribution of this work to the empirical literature for French context is underlining the long-term impact of CSR disclosure and therefore CSR practices on financial performance. In fact, CSR is considered as a long-term investment, so it seems logical to detect its positive benefits in the future; see for instance Chatterji et al. (2007). In the same context, a survey conducted by PricewaterhouseCoopers (2002) indicates that many executives in multinational companies believe that the performance of non-financial measures outweighs that of financial performance measures in terms of revelation of long-term value for shareholders.

Obviously, there were constraints like the number of years due to the novelty of the concept in the French context (adoption of NRE law in 2001). The small number of firms in the sample can be defended because we take into consideration the empirical evidence that large firms have the ability to be socially responsible and consequently tend to publish their CSR reports (Wu, 2006). Moreover, studying CSR reporting can be criticized by the fact that there is no normative judgment and evaluation yet to the content of these reports. Therefore, it was

chosen to study mainly the impact of the communication practice of the firm (publishing CSR report) on corporate financial performance.

In coming years and in further works, there can be an increase of the number of years-lags in order to test well the long-term CSR impact on financial performance and therefore on stakeholders perceptions about the adoption of CSR policy in firm's management. In fact, many theoretical and empirical studies (Mark-Herbert and Von Schantz, 2007; Minor and Morgan, 2011) attempt to investigate the value creation issued by CSR practices in term of the stakeholders attitudes especially when these practices can influence the reputation and brand image and therefore leads ultimately to financial performance.

Notes

1- NGO: Non Governmental Organization

2- NRE: Nouvelles Régulation Economiques passed in 2001 and entered into force by a decree in February 2002.

3-Vigeo: A rating agency that has established itself as leading European expert in the assessment of companies and organizations with regard to their practices and performance on environmental, social and governance ("ESG") issues. It provides scores concerning CSR about European companies. Its official website is: <http://www.vigeo.com/csr-rating-agency>

4-The site (www.corporateregister.com) includes a huge number of reports (47 132 non-financial reports for 9880 companies in 2013). These reports provide information on the internal and external business activities in various fields such as the environment, social work, sustainable development, etc.

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