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FINANCIAL RESULTS OF SOCIALLY RESPONSIBLE COMPANIES LISTED ON WARSAW STOCK EXCHANGE

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Abstract: The socially responsible companies expect to see improvement of their reputation, an increase in customer loyalty and – in the long perspective – also better financial results. The international studies are ambiguous as regards the correlation between CSR and financial results. The goal of the article is to determine whether in case of the companies listed on Warsaw Stock Exchange, it is possible to ascertain profitability of CSR activities. The article proposes a hypothesis that the financial results of the companies involved in corporate social responsibility undertakings are better than other companies. The analysis covered the companies from the three most numerous sectors on the RESPECT index, including only companies, which have been on the index for at least 5 years and for which it was possible to find a control group (companies comparable in terms of size and business activity not belonging to the index RESPECT). The analysis results are not explicit, however, they indicate to the fact that the proposed hypothesis is not positively verified in case of the analysed companies.

Keywords: corporate social responsibility, socially responsible enterprises, gross profit, Warsaw Stock Exchange.

1. Introduction

The CSR concept may be analysed in terms of its moral and ethical aspects, economic and social benefits related thereto as well as a relationship between economic entities and their environment. The article tackles the issue of economic benefits that a company may derive from social responsibility. One of the methods to achieve a competitive advantage is to observe the CSR rules by including in the company's business strategy not only economic, but also social and environmental goals. By following the CSR values, the companies expect to see, in the longer perspective, some improvement of their reputation, facilitation of cooperation with their environment and better use of resources, which will also improve their financial results.

The goal of the article is to compare the financial results of enterprises declaring compliance with the principles of social responsibility with other enterprises. Due to the availability of data, for the purposes of the article, companies listed on the Warsaw Stock Exchange and their gross profit were selected for comparisons. The analysis is conducted in sector terms to include the differences in the specificity of particular companies (sectors). The article proposes a hypothesis that the financial results of the companies involved in corporate social responsibility undertakings are better than other companies.

To verify the hypothesis, socially responsible companies were selected from the WIG RESPECT index, which includes companies declaring compliance with CSR principles. All analyzed companies belonged to the index for at least 5 years. The companies of similar size from outside the index have become the control group. Three sectors most represented in this index were selected for analysis. The article compares changes in financial results (gross profit level) in 2013-2018 for a selected group of 10 companies, of which six belonging to the RESPECT index.

2. Impact of CSR rules on financial results of companies

The observance of the CSR rules may be seen as part of the business strategy aimed at achieving a competitive advantage. By including in the business strategy social and environmental goals in addition to the economic objectives, the companies may create an image of a good partner, employer and neighbor. The implementation of the CSR concept allows the company to establish a well relationship with the environment. Provided that such activities are efficient, the company may expect improvement of its reputation, an increase in customer satisfaction and loyalty as well as a decrease of operating costs and risk levels (van Marrewijk, 2003; Hsueh, 2014; Saeidi et al., 2015). By achieving the aforesaid goals, the company may use its resources in a more efficient manner and, in the longer perspective, enhance its competitive position and increase the market value (Maignan, and Ferrell, 2001; Luo, and Bhattacharya, 2006; Zieliński, 2014, 2015). From the economic perspective, the CSR-based business strategy allows to optimally use the resources thanks to a good relationship with the environment as well as to reduce the environmental impact, insurance costs and legal troubles, which should be translated into improvement of the company's financial results in the long term.

Taking into account the expectations of entities operating in the environment increases the likelihood of the behavior expected from them (e.g. increased customer purchases, continuity of deliveries of raw materials, improved employee performance) (Hofmann et al., 2014). It must be stressed that the benefits resulting from the compliance with the CSR principles are difficult to measure and often spread over time. In the short term, the incentive to undertake CSR activities is often improvement of the company's image (establishment of reputation and brand distinguishing the company from its competitors). Such activities generate costs, part of which will be recoverable only after a longer period of time, thus, companies are often uncertain whether the CSR activities will actually translate into competitiveness and profitability (Bartkowiak, 2011). In the long term, assuming that the company's reputation is established, the company may expect higher profitability of involved resources, better financial standing and higher market valuation (Garriga, and Melé, 2004; Marcinkowska, 2010; Rok, 2012). In the short-term perspective, the decision makers may be reluctant to undertake the CSR activities, seeing there a source of additional costs and impairment in their negotiating position with respect to employees, customers, suppliers, etc. However, it should be also stressed that, in the long-term perspective, there is no conflict of interests between the company and entities collaborating therewith within most of the CSR areas.

The majority of international studies show that the implementation of the CSR rules in the company has a positive impact on its financial results (Garriga, and Melé, 2004; Saeidi et al., 2015). Nonetheless, there are also studies that suggest neutral or even negative impact of the CSR activities on the company's financial results (Karaye, Ishak, and Che-Adam, 2014). With the above in mind, it may be concluded that the undertaking of the CSR activities does not guarantee improvement of the company's financial results. The profitability of the CSR activities depends on their direction. Therefore, the CSR expenses must include the impact of the CSR activities on the behavior of entities operating in the company's environment and their responses to the operations of the company (how such operations may improve the perception of the company and what will be their impact on the collaboration between the entities and the company).

For companies declaring compliance with corporate social responsibility principles, separate indexes are often created on stock exchanges. In the case of the Warsaw Stock Exchange (WSE) in 2009, the RESPECT index was created for such companies. One the tasks of such index is to promote the CSR principles, both among the listed companies and other enterprises not listed on stock exchanges as well as in the society (Płoszajski, 2013; Zieliński, 2015).

3. Research method

The purpose of the article is to compare the financial results of companies declaring compliance with the principles of social responsibility with other companies listed on the Warsaw Stock Exchange, by sector. The data analysis is aimed at verifying the proposed hypothesis that the financial results of the companies involved in corporate social responsibility undertakings are better than other companies.

To verify the hypothesis, changes in the gross profit of the companies from the last 5 years have been subject to comparison. The companies belonging to the WIG RESPECT index were treated as socially responsible companies. Belonging to this index requires applying companies to meet the relevant requirements in accordance with CSR principles. In 2019, the RESPECT index comprised 31 companies. The most numerous sectors were as follows: banking (7 companies), energy (4 companies), mining (4 companies), construction (3 companies), petrol (2 companies) and chemicals (2 companies). Other sectors were represented by single companies.

The companies selected for the analysis belong to the three sectors most represented in the RESPECT index, which have been participants of the index for at least 5 years and for which it was possible to find a control group (comparable in terms of size and business profile of companies not belonging to the index RESPECT). Among the most represented sectors, the mining sector analysis was abandoned due to the lack of a sufficiently large company listed on the WSE, which would not belong to the RESPECT index (no appropriate control group). Therefore, the three sectors with the largest number of representatives on the RESPECT index selected for the analysis are: banking sector, construction sector and energy sector. The five-year period of participation of the CSR companies on the index was considered minimum due to the fact that a considerable proportion of effects of CSR activities were noticeable only in the long perspective. The following companies met the criteria for the long participation on the RESPECT index (since 2013): Handlowy, Millenium and ING (banking), Budimex and Elektrobudowa (construction) and PGE (energy). Alior bank and PKO BP in the banking sector (one of the banks is larger, the other - smaller than the companies on the RESPECT index), Rafako in the construction sector (the only company of the similar scale and direction of business activity), and Enea in the energy sector were selected for the control group (comparable size and character of business activity). The gross profit was a reference point to reflect financial results of particular companies.

4. Comparison of changes in the level of gross profit of socially responsible companies with the control group in three selected sectors

Table 1 includes a comparison of gross profit in 2013-2018 of the analyzed companies in absolute terms. The table was divided into columns referring to particular sectors, first presenting the companies on the RESPECT index.

The banking sector shows the most stable direction of changes in gross profit. Apart from 2015, when the majority of the analyzed banks recorded profits lower than in the previous year, the gross profit in other years gradually increased in most of the banks. However, what is interesting is the fact that two banks, i.e. Handlowy and Alior, were significantly different from the above-mentioned trend. In the analyzed period, the first bank underwent some ownership changes related to the restructuring process, which made it the only company to observe a decrease in gross profits in 2013-2018. On the other hand, Alior applied aggressive, but – as it turned out – efficient strategy for expanding its market share, which resulted in the fastest increase of gross profit, in relative terms. In absolute terms – starting from the gross profit a few times lower than that of Millenium bank in 2013 – in 2018, Alior bank generated the gross profit comparable to the profit of Millenium bank.

Table 1.
Changes in gross profit of the companies from the RESPECT index compared to the companies outside the index in 2013-2018 (PLN million)

Company	2013	2014	2015	2016	2017	2018
Handlowy	1218.1	1167.7	790.8	764.3	707.1	828.7
Millenium	680.6	838.5	687.5	953.3	925.2	1024.6
ING	1192.9	1347.4	1390.3	1644.5	1882.0	2033.0
Alior	287.7	401.1	386.0	691.4	736.7	988.3
PKO BP	4044.0	4035.0	3191.0	3787.0	4429.0	4471.0
Budimex	336.0	242.6	296.8	511.4	580.4	403.4
Elektrobudowa	25.9	33.5	62.9	68.8	74.4	-86.2
Rafako	135.7	27.3	15.6	63.0	46.8	6.9
PGE	2323.0	5477.0	1790.0	1674.0	4549.0	149.0
Enea	954.1	1143.1	409.0	106.9	1466.6	868.7

Source: Data published on websites of the companies and the website of Warsaw Stock Exchange (a complete list is in the bibliography).

The construction sector is characterized by greater amplitude of changes in the level of profitability. In 2013-2017, the only exception was Elektrobudowa, which consistently kept increasing its financial results on a yearly basis. Unfortunately, the last analyzed year, i.e. 2018, brought relatively high losses for the company, which is explained by the decreased volume of orders for the projects implemented on a general contractor ship basis, in particular, the necessity to establish the financial provision for a large contract at risk of timely execution (www.elektrobudowa.pl., 2019). Problems that occurred in the last analyzed year in the construction sector, including industrial construction, are confirmed by the data from the remaining two companies operating within this sector. Budimex was the only construction company in question that achieved a higher gross profit in 2018 than in 2013. At this point, it should be mentioned that the aforesaid company is definitely the largest construction enterprise among the analyzed companies.

The greatest fluctuations in gross profit in the analyzed sectors were observed in the energy sector, especially in PGE company that noted the greatest fluctuations of the absolute gross profit level from among all of the companies compared in table 1. This is due to the fact that in 2014, PGE reached the highest level of gross profit according to the table, and in 2017 – the second highest, but in 2018, the company found itself among the enterprises with the lowest level of gross profit. In 2018, both analyzed energy companies generated the gross profit lower than in 2013. Similarly, as in case of the construction sector, a significant deterioration in the financial situation was observed in 2018 year. This could be as a result of the rise in world prices of coal and fees for carbon dioxide emission. It is difficult to transfer all effects of the increase of energy generation costs to customers, since the potential price rise depends on the regulatory state authorities.

Due to different sizes of businesses of particular companies and different absolute sizes related thereto, relative values seem more useful for comparing the aforesaid changes. Table 2 includes a list of the change rates of gross profit on a year to year basis and for the entire analyzed period.

Table 2.
Change rates of gross profit of the companies from the RESPECT index compared to the companies outside the index in 2013-2018

Company	2014/13	2015/14	2016/15	2017/16	2018/17	2018/13
Handlowy	95.9	67.7	96.6	92.5	117.2	68.0
Millenium	123.2	82.0	138.7	97.1	110.7	150.5
ING	113.0	103.2	118.3	114.4	108.0	170.4
Alior	139.4	96.2	179.1	106.6	134.2	343.5
PKO BP	99.8	79.1	118.7	117.0	100.9	110.6
Budimex	72.2	122.3	172.3	113.5	69.5	120.1
Elektrobudowa	129.3	187.8	109.4	108.1	-	287.3*
Rafako	20.1	57.1	403.8	74.3	14.7	5.1
PGE	235.8	32.7	93.5	271.7	3.3	6.4
Enea	119.8	35.8	26.1	1371.9	59.2	91.0

*indicator for 2017/13

Source: own calculations based on Table 1.

Analyzing the relative changes in the level of gross profit in the banking sector, the picture of the situation is ambiguous, but prompting the conclusion that membership in the RESPECT index harms banks rather than helps them. Even if we ignore in our considerations the weakest Handlowy bank, undergoing restructuring changes, the other two "socially responsible" banks increase profit significantly faster than the largest bank in the sector (PKO BP), but their profits grow much slower than Alior Bank, which just like PKO BP is not included in RESPECT index. Since Millenium and ING are medium banks under Polish conditions, it seems more adequate to compare their results with Alior bank and not with those of PKO BP, which is the largest bank in the banking sector, thus, characterized by limited possibilities of further development. Such comparison is in the analyzed period definitely unfavourable for banks from the RESPECT index.

The results from the comparison of changes in gross profit, also in the construction sector, are ambiguous. However, it must be stated that the profits of Budimex are rising and the profits of Elektrobudowa were rising until 2017 at a pace much faster than in case of Rafako, which was adopted as a control company. In the entire analyzed period, i.e. 2013-2017, both Budimex and Elektrobudowa observed significantly faster and more stable growth of gross profit than Rafako, but the last year of analysis challenged the possibility of positive verification of the hypothesis presented in the article with respect to the construction sector due to the losses incurred by Elektrobudowa.

In case of the energy sector, only two companies were compared, thus, the results are the least reliable. On a year to year basis, both companies experienced in different proportions decreases and increases in the level of gross profit in the same years, which confirms the specificity of the sector. In terms of changes in gross profit, in the period 2013-2018, Enea, which is not on the RESPECT index, incurred significantly lower losses in gross profit than PGE that belongs to the index.

5. Conclusions

The comparison of absolute and relative changes in the gross profit level for six selected companies belonging to three selected sectors with four companies not belonging to the RESPECT index indicates that the article hypothesis that the financial results of companies declaring corporate social responsibility are better than companies not declaring such activities, should be rejected. The comparison results are ambiguous both in the construction sector and in the banking sector, but in the latter, they indicate to slightly higher levels of gross profit of banks from outside the index. The difference in favour of the company from outside the RESPECT index is prominent in the energy sector. However, it should be noted that the comparisons are less reliable in this case, as only two companies were analyzed.

The analysis leads to a conclusion that the financial results to a large extent depend on the current market situation and not on the adopted strategy, which includes or dismisses corporate social responsibility. Such situation may be explained by the manner of implementation of the CSR strategy. Perhaps socially responsible companies do not properly implement CSR policy, focusing expenses on non-return activities in the form of additional revenue. Another reason for the lack of positive verification of the presented hypothesis might be the lack of expected response of the environment of such companies to the activities undertaken thereby (e.g. while choosing a supplier, the customers' decisions are solely based on price, without paying attention to CSR activities).

It should be added that the benefits resulting from the compliance with the CSR principles are difficult to measure and often spread over time. This applies especially to large social projects targeted at the company's environment. It is possible that the five-year analysis period adopted in the article is insufficient for the effects of these activities to appear in the financial results.

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