

Internal and External CSR, differences between America and Europe.

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Abstract:

Introduction: Corporate Social Responsibility (CSR) took an important role since multiple stakeholders took recognizable importance in the organization (Carrol, 1991); organizations pay more attention to fulfill their stakeholders' requirements regarding social, environmental and economic aspects. Since the economic aspect is really important for the company in order to growth or at least survive, some efforts have been done in order to look for a relation between CSR and Financial Performance (FP).

However, little is known if the relation could change depending if the firm has external or internal CSR expenditures. Neither if this external or external expenditures are different depending on the region where companies are located. At this stage in the research, external CSR expenditures will be defined as visible CSR initiatives that helps to enhance the community in which a firm is located; and internal CSR expenditures as invisible investments for the outsiders in order to enhance the firms regarding operation and work environment.

The main purpose of this study will be to explore if it is a relation between CSP and FP depending whether there is an external or internal CSR expenditure and whether the company's country of origin is from America or Europe. This study would try to answer the question. What is the relation between CSR expenditures and Financial Performance depending whether is an external or internal expenditure and whether the company's country of origin is America or Europe?

Literature review: There has been an effort in order to know whether the relation between CSR and FP, if exists, is positive or negative (Reinhardt & Stavins, 2010). Since Margolis, Elfenbein and Walsh (2009) found that the relation between CSR and FP is that a better financial performance leads to a higher CSR, then the author will focus only in studying this causation.

The internal and external CSR has been studied in different ways, such as how a firm looks for recognition from internal and external stakeholders (Burke & Logsdon, 1996). Also, the relation between the external and internal CSR (Brammer, Millington, & Rayton, 2007).

On the other hand, there have been studies that show a comparison between regions, showing that there are some similarities between the CSR between European and American firms except for Mexican firms (Welford, 2005). But other works recognized that there are different between firms from countries such as UK and USA (Aguilera, Williams, & Conley, 2006) or even regarding the region of North America vs. Europe (Luna Sotorrío & Fernández Sánchez, 2008). However little is known about the interaction between internal and external CSR and the region of the firm.

Methodology: Using Bloomberg's data of firms from 2008-2015, the authors perform a general linear model analysis to look between differences regarding the region. After reducing the sample because of lack of information, the firms that remain were 444 from 46 different countries. To operationalize the CSR internal and external measures, were used the Bloomberg indicators "investment in operation sustainability" and "community spending". As specified by Bloomberg, the first one is related with the amount of money spent by the company, on operational environmental and social compliance and other internal environmental and social initiatives; the second one, is related with the amount of money spent by the company on community-building activities. Also, financial performance will be measured by net income, stock price, ROE, ROA. Following Waddock & Graves (1997) control variables were size and risk which was measured by number of employees and long-term debt over total assets respectively.

Results and contribution: Given the degree of advancement in the research, the authors will only develop on the expected contributions of this work. It is expected a difference between European and American companies. Following Luna Sotorrío & Fernández Sáncez (2008), it is expected that the overall CSP to be greater for Europe than for America. However, this relation is not expected to occur at the disaggregate level of internal and external CSR expenditures.

The main contribution of this research is to extent those findings regarding the relation between CSP and FP whether the company's country of origin is from America or Europe but, considering the external and internal CSR expenditures in millions of dollars instead of the absence or presence of a behavior as the Luna Sotorrío & Fernández Sáncez (2008) proposed.

Implications and Value: The implications of this work will be to know how the internal and external CSR expenditures are related with a firm's Financial Performance depending on the region. This study will enlighten managers to know what is the most profitable form of investment on CSR depending on the region where the firm is. An important implication for the company, is that although it is true, one tends to see the results financed as essentially monetarized; We seldom do the same with the intangible value that can be given to the company that deals in investing in favor of some of its stakeholders. Without appreciating that this can generate intangible results that are profitable in the long term for the company.

The value of the present work is to extant the literature about CSR, disaggregating it in external and internal and taking in count the region of the firms. The value that is generated through actions that favor any of the company's stakeholders, considerably returns, through materialization's and intangibles that improve the organizational quality.

Keywords: Corporate Social Responsibility (CSR), Financial Performance (FP), External CSR Expenditures, Internal CSR Expenditures.