

**Corporate Social Responsibility (CSR)  
in Peru:  
Financial Performance of Social  
Responsible Companies**

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# Introduction

The purpose of this paper is twofold:

First, it aims at reviewing CSR in Peruvian corporations, and second, it seeks to analyze the Corporate Financial Performance (CFP) of Peruvian companies that have received CSR awards, and are thus considered to be socially responsible.

# **Part I: CSR in Peru**

# CSR in Peru

In general terms the Peruvian CSR scene is **positive**, as there are a number of companies that are developing CSR policies. Nevertheless, Peruvian CSR remains **shallow**; a more articulated management of all the aspects that involve CSR practices is lacking (Oxfam, 2008)

# CSR in Peru: Some facts

- Legal Framework.
  - In Peru, CSR disclosure is **voluntary**.
- Main Institutions influencing CSR in Peru: Government and Others (“**Peru 2021**” and Universities)
- Most applied CSR reporting Standards **GRI**.  
Others: ISO 26000; UN Global Compact; OECD Guidelines for Multinational Enterprises; IFC's Sustainability Framework

**Table 1**  
**Peruvian Corporations' using Global Reporting Initiative (GRI)**  
**(from 2004 to 2013)**

Sector	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture						1	3	2	3	3
Commercial Services										1
Conglomerates						1	1	1	1	1
Construction									2	2
Construction Materials							1	1	1	4
Energy			2	3	2	1	2	4	5	7
Equipment								1	1	
Financial Services		1	1	1	1	2	3	4	4	6
Food and Beverage Products							1	2	2	1
Household and Personal Products										2
Logistics						1		3		3
Metals Products								1	1	1
Mining						5	7	12	8	8
Non-Profit / Services				1	1	1	1	1	2	2
Other			1	1		1	1	2	1	3
Telecommunications	1	1	1		1	1	1	1	1	
Tobacco					1					
<b>Total</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>14</b>	<b>21</b>	<b>35</b>	<b>32</b>	<b>44</b>

Source: Own work based on GRI database and companies' Sustainability Reports

# Issues related to CSR in Peru

- A) Focus on **Community and Environmental Programs**
- B) **Mismatch** regarding the perception of CSR practices among the Stakeholders
- C) The **Mediator role** of the Peruvian's government

# Part I: Conclusions and Recommendations

It can be concluded that although the CSR system in Peru has been improved in the last few decades, especially with the participation of institutions like Peru 2021, universities and a more active role of corporations, CSR in Peru is still in a developing stage. Moreover, a more proactive participation of governmental institutions, with the involvement of NGOs and other civil organizations, could contribute to further development.

**Part II:**  
**Relationship between**  
**Corporate Social Performance (CSP) and**  
**Corporate Financial Performance (CFP)**

# Analysis

To analyze the correlation between CSP and CFP of Peruvian corporations, two types of analysis were conducted. The first analysis aims at assessing the financial performance of 'responsible' and 'not-very responsible' firms. The second analysis aims at determining whether responsible companies have positive abnormal earnings.

# CSR awards in Peru

**Two types** of CSR awards are granted by Peru 2021:

The **first one**, the “Peru 2021 Award for **Corporate Social Responsibility and Sustainable Development**”, is divided into seven different categories (Environment, Customers, Collaborators/Employees, Community, Government and Civil Society, Multi-stakeholder, and Suppliers).

## CSR awards in Peru cont.

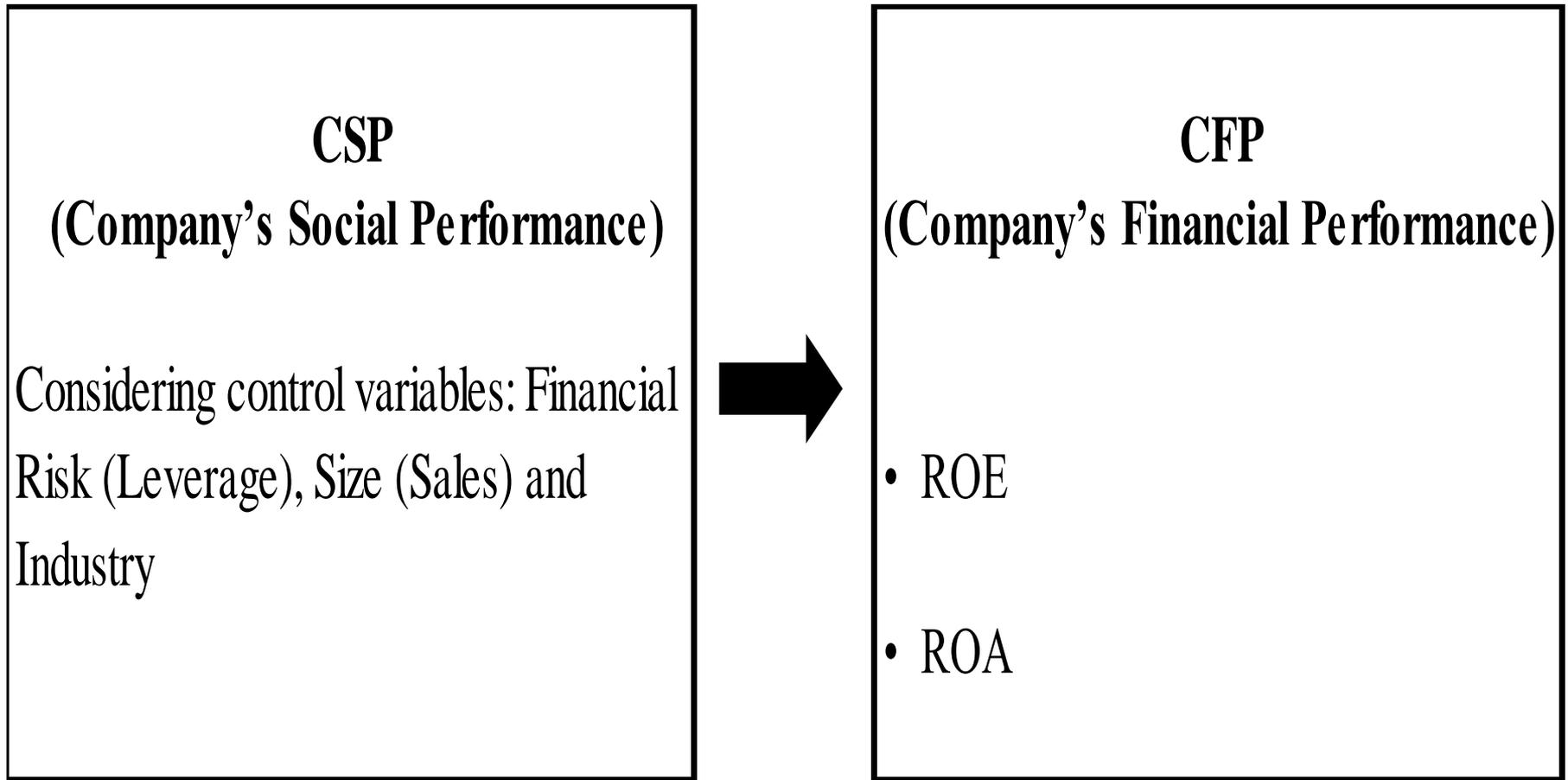
The second award is the 'CSR Distinction Award.' According to Peru 2021, this recognition certifies companies in the eyes of their employees, investors, customers, authorities and society in general, as a committed volunteer organization with a socially responsible management, as part of their culture and business strategy.

# Study 1: Financial Performance of 'Responsible' and 'Not-very Responsible' Firms

## Methodology

CSR awards can have a positive effect on a company's financial performance. Figure 1 is a schematic depiction of this study's conceptual framework. It suggests a correlation between the independent variable, CSP (company's social performance), and the dependent variable, CFP (company's financial performance).

# Figure 1: Schematic diagram



# Hypothesis

$$H1: CFP_{i,t} = \alpha_i + \beta_1 CSP_{i,t-1} + \beta_2 Size_{i,t-1} + \beta_3 Leverage_{i,t-1} + \beta_4 Industry_{i,t-1} + \varepsilon_{i,t}$$

Consistent with Waddock and Graves (1997) the following variables are used:

$CFP_{i,t}$  is measured with ROE (Profit before taxes divided by equity) and ROA (Profit before taxes divided by assets).

CSP is measured taking into consideration the CSR awards received by the companies in the previous period.

Size is measured using Total Assets.

Leverage, an indicator of financial risk, is measured using the solvency ratio (asset based).

Industry is a dummy variable (0 to 7) grouped according to the US SIC code

# Discussion and Conclusions

The results generally support the hypothesis that financial performance is correlated with social performance. There is a higher correlation between CSP and ROE than between CSP and ROA. Moreover, in order to evaluate the financial performance of 'responsible' and 'not-very responsible' companies a further analysis was done.

# Discussion and Conclusions cont.

The data of these two groups was analyzed and the following **conclusions** were reached  
**‘responsible’ companies have a much higher ROE than ‘not-very’ responsible companies.**

50% of the “responsible companies” are in the Food Industry (Sugar and confectionery products and Beverages); 16.66% in the Mining Industry (Lead and zinc ores); 16.66% in the Communications Services Industry and Cement, 16.66% in the Hydraulic Industry.

# Study 2: Positive or Negative Abnormal Earnings of Companies rewarded with CSR Awards?

H1: Winning a CSR award leads to a positive abnormal stock return on the following day of the award announcement.

However, being responsible implies incurring operating expenses and other expenditures, which could affect negatively the stock value of a company. Therefore, a second hypothesis is formulated.

H2: Winning a CSR award leads to negative abnormal stock returns on the day of the award announcement.

# Research Methodology

To carry out this comparison, **the market model (an event study model** that calculates the variation in share prices on any given day and estimates the normal returns that are expected when there is no other relevant information available) is applied using the following formula:

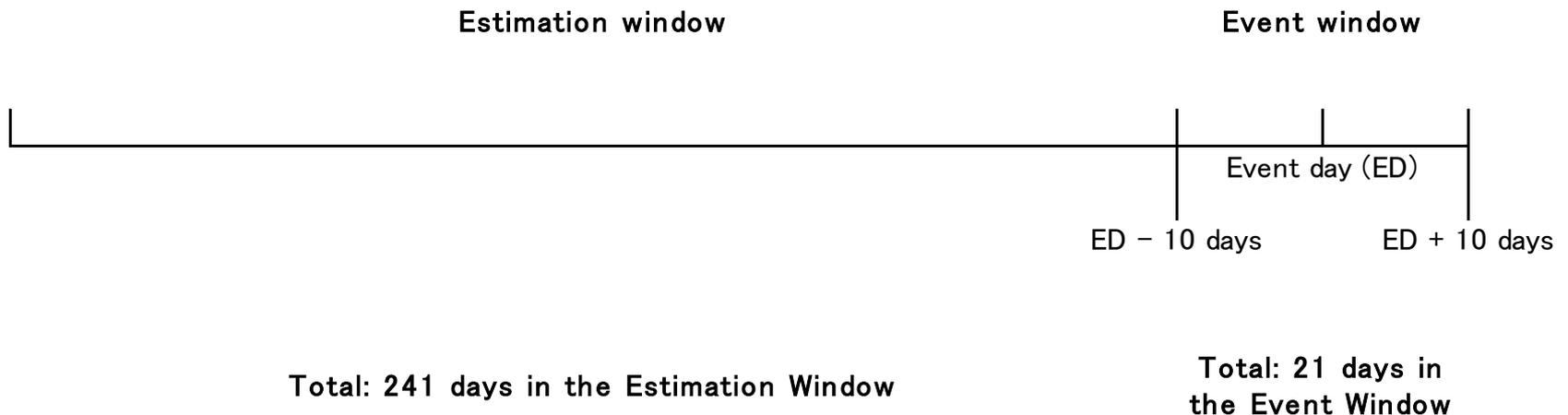
$$R_{it} = a_i + b_i R_{mt} + e_{it}$$

# Sample

The data were obtained from the Bolsa de Valores de Lima (BVL) website. The analysis was done for a three-year period (from 2011 to 2013). Once the exact day of the award ceremony was determined, the dates included in the window around the event day were also examined to ensure that there were no other news items published about the companies concerned that could have affected its returns during that period.

# Sample

To carry-out the event study, **an estimation period of 241 days was considered**. That lapse was used since the average number of trading days of the stocks in the IBGC in 2013 was 241 days. The impact of the news item was analyzed within a window of (-10; +10) days around the event date



# Discussion and Conclusions

The results show that companies that were rewarded with the “CSR Award” **consistently recorded positive abnormal earnings** in the three-year period of study.

Based on the results, it is possible to state that **the claim that winning a CSR award leads to a positive abnormal stock return on the day after the award announcement should be accepted.**

# Part II: Conclusions and Recommendations

From the first study, it was concluded that 'socially responsible companies' have better financial performance than 'not-very socially responsible companies.'

In the second study, it was observed over a three-year period of analysis, that on average the market reacts in a positive way when it learns that a company was granted with a CSR award.

In summary, Peruvian companies are rewarded when they operate in a socially responsible manner.

# Paper's Conclusions

This paper had a double purpose 1) analyzing the current situation of CSR in Peru and 2) determining the relationship between CSP and CFP in Peruvian corporations.

Regarding the first purpose it was concluded that even though the CSR system in Peru has improved considerably in the past decades, it is still in a developing stage. A more proactive participation of the government could contribute to further development.

On the other hand, for the second purpose (determining the relationship between CSP and CFP in Peruvian corporations) it can be concluded that there is a correlation between CSP and CFP and it pays to behave in a socially responsible way.

# Contributions and Limitations

The main contribution of this research is its originality, since no research regarding CSP and CFP has been done in Peru to date. However, this study has also some limitations. First, the time frame of the research is only three years. A longer period would be preferred to reach a stronger conclusion. Second, it would be preferable to have data from a greater number of companies in the sample.