Department of Economics and Finance

Chair of Corporate Finance

The Relationship Between CSR and Financial Performance:

An Empirical Study of Italian Companies

Supervisor:
Prof.
Alessandro Riboni

Candidate:
Sara Vaccari
233021

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To my family, thanks to whom I am the person I am today,
To my friends, who have always supported me,
to My Ladies, with whom I have shared most of my life,
To Bonni, a lifetime friend.

I love you all.

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INTRODUCTION

There is no doubt that these last two years have been years of change and new perspectives. The global pandemic of Covid-19 has not only brought political and social upheavals, but also the adaptation of many companies to a completely different external environment. Indeed, it has forced business to change, to be more creative, to be more dynamic and to adapt their business models to survive. Moreover, many are the business leaders who believe that the pandemic has only accelerated an innovation process, specifically in the sustainability, which could no longer be postponed.

The role of international entities such as European Union and United Nations has been extremely pivotal in guiding individual companies in this new and fascinating journey. Starting from the Montreal Protocol, to the UN Sustainable Development Goals and the EU Directive 2014/95, these global entities have incentivized many companies to join in this adventure, by providing guidelines and standards to follow.

However, the conceptualization of sustainable practices and socially responsible societies, specifically Corporate Social Responsibility, is still very unclear. Reason for which, in the first chapter, our study tries to retrace the literature on the subject in question, starting from its first approaches in the 1900's up to the present day. It is important to keep in mind that CSR is still a hotly contested issue in modern literature, and that a general definition has not yet been recognized.

Recurrently, the open debate is whether CSR, and its respective managerial practices, could be considered as strengths for the company and advantages for shareholders, or just as means to increase the individual prestige of current managers. This leads our study, in the second chapter, to a two-fold and contrasting analysis. Starting from a strategic managerial perspective on the topic, the chapter moves to the analysis of the shareholders' side of the story. However, even if these two perspectives seem extremely conflicting and that these two protagonists may seem as sworn enemies, in reality the dividing line that has been created over time is slowly diminishing. Indeed, since 2016, the Socially Responsible Investments and respective strategies - as recorded by Eurosif and Gsia - have significantly increased both from an international and Italian perspective. Therefore, it seems that investors' practices and initiatives are getting align with the managers' ones.

Recent researches have confirmed that companies that care about their stakeholders while monitoring their externalities are benefitting from their commitments, as ethical finance has been increasing exponentially in recent years and many are the individuals who prefer to invest in socially responsible companies. Therefore, it seems noticeable that sustainability and the well-being of society is not an issue just at the heart of individual companies, which as excellent citizens are striving for a better future; but also, at the hearth of individual investors who are deciding to sustain and actively support these organizations.

The need in financial markets for a universal paradigm that could provide specific information regarding the sustainable and social practices of companies, led to the declination of the ESG Score. As a matter of fact, the third chapter focuses on the study of this Score, how it is determined, who are the main rating agencies, their differences and how the three components of the paradigm (Environmental, Social and Governance) are settled.

Based on past studies and literature, the fourth chapter analyzes the heart of our study. After having analyzed the existing literature on CSR, after having analyzed it from the two perspectives of the two protagonists of the story, and after having declined the ESG Score - extremely important for the analysis of our empirical model- we have come to an essential question to which we wanted to provide an answer: Is it therefore true that investing in sustainable practices, and therefore increasing the ESG Score, leads to a financial advantage in the market? Starting from a sample of companies listed on the Milan Stock Exchange, and, initially demonstrating that the presence of a specific internal organization in a company, meaning the presence of a CSR Committee, positively affects the assignment of a higher ESG Score; we come to provide a definitive answer to one of the most discussed questions in modern literature. Indeed, it seems that for a company investing in sustainable and socially responsible practices (measured with the related ESG Score) actually leads to a financial advantage, measured by Tobin's Q. The analysis further focuses on the individual effects of the Environmental, Social and Governance components.

Existing academic, theoretical and empirical studies show conflicting results on the raised question; however, our analysis provides a new positive evidence on the relationship between the presence of a CSR Committee and the ESG Score, but above all, between financial performance of a company and its ESG Score.

I. CORPORATE SOCIAL RESPONSIBILITY

1. Definitions and Development

The term Corporate Social Responsibility (CSR) was defined by the European Commission in the Green Book (2001, Ch. 2)[1]; 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." Being socially responsible does not mean to fulfill all the legal expectations imposed by the society, but it means going beyond what is strictly necessary, investing in environmentally responsible projects, internal organization and on relations with the society and the entire network of stakeholders.[2] Being socially responsible, means being part of the community, making the difference and being part of something bigger than the mere maximization of financial performance and value of the firm.

The European Commission definition of CSR is just one among the numerous attempts made in history. Indeed, as Dahlsrud (2008) claimed, "despite numerous efforts to achieve a clear and unbiased definition on Corporate Social Responsibility, there is still some confusion as how should be defined". The problem is that there is an abundance of definitions, which are often biased toward specific interests and thus prevent the possibility to develop a general concept.[3]

Corporate Social Responsibility and its importance has been a highly debated field of research starting from the 1950's. The next paragraphs focus the attention on the evolution of CSR starting from its first approaches until 2000's.

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[1] A Green Paper, released by the European Commission, is a document intended to stimulate a discussion and a consultation on a specific topic. It may be followed by a White Paper, an official set of ideas and proposals used as an instrument to develop a law. This specific "Green Paper seeks to launch a wide debate on how the European Union should promote CSR at both European and international level", on how to make the most existing experiences, to encourage the development of innovative projects and to bring greater transparency. In a Communication of 2002 -composed by six chapters- the EU presented a strategy to promote CSR.
See Harribey (2006) for a review of how corporate social responsibility became a new paradigm in the European policy.

[2] A stakeholder can be defined as "an individual or group, inside or outside the company, that has a stake in and can influence an organization's performance." The main influential groups are: Stockholders, Employees, Suppliers, Creditors, Customers, Government and Communities. *See e.g.,* Harrison, Bosse and Phillips (2010); Freeman, and Mcvea (2001) for more details on stakeholders' management, stakeholders' utility functions and competitive advantage.

[3] Van Marrewijk (2003), pp. 95–105.

1.1 A literature review of the historical evolution of CSR

The concept of Corporate Social Responsibility may seem to have a fairly recent origin, or at least, an origin that could have been connected to relatively recent historical events, that have brought companies to the center of attention. Instead, as the author Chaffee (2017) strongly believed, "the origins of CSR can be traced back to the ancient Roman Laws under which, the State recognized various groups as having a separate identity from those individuals who composed them." (p. 351) [4]. These entities had a specific role in the society as the one to provide common services such as asylums, hospitals, political clubs, home for the poor and orphanages.[5] The notion of corporations as social entities was carried on in the Middle ages though the English Law, reaching the American Progressive Era during which the president of the time, Theodor Roosevelt, implemented a series of political reforms aimed at introducing the first anti-monopoly laws into the US system.[6] In the early 1900's, the growing urbanization and the industrialization helped shaping and defining the labor market, the new challenges that workers were facing and the creation of Trade Unions. The actions taken by the President, did not only guarantee the first forms of anti-trust laws and free competition on the market, but they induced relevant entrepreneurs, as Rockefeller and Carnegie, to provide new governance policies in favor of workers and the entire population-such as donations for the constructions of hospitals, parks and any other community's need. For the first time, what had always remained an abstract theory began to materialize in the society. In the 1920's and 1930's managers started to be associated with responsibilities such as balancing the maximization of performance of the firm and the demanded necessities in the market and society. During the World War II and in the late 1940's, companies' growth and political instability led corporations to be seen as institutions with social relevance, and the first discussions on corporate social responsibility were coming to life.[7] Latapí Agudelo et al. (2019) identified some early examples on the controversy of the corporate social responsibilities such as *The Functions of the Executive* by Barnard (1938) as well as the *Social Control of Business* by Clark (1939).

[4] *See also* Long (2009) and Stephens (2002) for further references on authors that agreed with Chaffee on the origins on CSR.
[5] *See* Funk (1984) for specific analysis on how corporations were employed in the Roman Law.
[6] *See* Nigro and Petracca (2016), ch.1, to understand the evolution of CSR from the origins to the institutionalist approach.
[7] *See* Heald (1970).

The period after the World War II and the 1950's may be considered as a period of adaptation and change towards the attitude of corporate social responsibility. The first author changing perspective on this concept was Bowen (1953) with his work *Social Responsibilities of the Businessman*. The American economist emphasized the importance and the role of the "businessman's" decisions and actions having a direct impact to the society as a whole, as well to stakeholders. In this way, the conception of corporate social responsibility was linked to managers and businessmen and not to the overall company. This new revolutionary idea of management was ahead of his time, furthermore, his contribution was considered as one of the first academic works in the field, focusing specifically for the first time on the doctrine of Social Responsibility-reason for which-Bowen was called by Carroll (1999) as "Father of Corporate Social Responsibility". Starting from this point, Bowen, defined the Social Responsibility of the executives as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". (Bowen 1953, p.6). Other authors such as Ealls (1956) and Selekman (1959) in that time followed Bowen's steps.

The rapid population growth, pollution, and scarcity of resources, as well as the social movements with respect to environmental issues and human and labor rights, gave way in the 1960's to a growing interest of scholars to define and understand Corporate Social Responsibility. Historical events had a strong impact on society and on the evolution of CSR concept. In particular in US, the 1960's were years of protests, years of sit-ins, walk-outs by students and rallies. Scholars approached CSR to understand the fast-changing modern society and find a sense of it. Furthermore, during those years, a new idea dominated economists' mind. They started to notice that big companies played a role similar to decision making organizations, since their actions and initiatives began to influence the society and community in which they operate. Davis (1960) made a step forward Bowen's contribution (Bowen 1953) and a step very close to the definition of Corporate Social Responsibility that the European Commission gave in the Green Book (2001). The American author referred to Social Responsibility as a nebulous idea, considered by him in a managerial context as the "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest*."* (Davis 1960, p.70). In this way social responsibility goes in two directions. From one side, businessmen recognize that they have an obligation to the society with regard to the economic development, and on the other side the obligations to mature human values. Consistently, "the corporate social responsibility refers to both socio-economic and socio-human obligations." (pp. 70-71).

Instead, Frederick (1960) focalized on the internal boundaries of the society and the obligation of companies' actions to increase the overall welfare of the society, emphasizing that "social responsibility in the final analysis implies a public posture toward society's economic and human resources and a willingness to see that those resources are used for broad social end and not simply of the narrowly circumscribed interest of private persons and firms." (Frederick 1960, p.60). The late 1960's is characterized by further analysis on Corporate Social Responsibility, seeing as an engine to discover new perspectives and new corners of the society in which the main scholars were living.[8]

Historical events in 1970's had a huge impact on the role of corporations in the society. The 1969 oil spill in Santa Barbara[9] led American population to numerous protests across the country, in this occasion the first Earth Day was celebrated in 1970. This dramatic natural event changed completely the faith of the society and the regulatory framework that later on would influence the behavior and responsibilities of corporations toward society.[10]

One of the main literature contributions in the 1970's came from the Committee for Economic Development (1971) providing a new understanding of the role of companies, stating that "business exists to serve society." (p.11) Indeed, the only corporations' role is not seen any more as a mere distribution of products and services, but they are being asked to contribute more to the quality of life for the society as a whole.

The 1970's are defined as the era of "managing corporate social responsibility" (Carroll, 2015, pp.88), an era in which the most renowned companies have started to feel the breeze of being part of a community. It is in this period that Carroll (1979), outlined his own perception of corporate social responsibility composed by four elements: "the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time".[11] (p. 500).

The evolution of CSR has not always been seen by all scholars as a positive phenomenon; indeed, there were also numerous criticisms from very influential authors of the time such as Levitt (1958) and Friedman (1970).

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[8]*See e.g,* McGuire (1963) and Walton (1967).

[9] More on this topic: Clarke and Hemphill (2002) and Spezio (2018).

[10]These responsibilities would have been formalized with the development of Consumer Product Safety Commission, Equal Employment Opportunity Commission and Environmental Protection Agency. Later on, in 1980's: European Commission's Environment Directorate-General, World Commission on Environment and Development, United Nations adoption of the Montreal Protocol and Intergovernmental Panel on Climate Change.

[11] In 1991, Carroll published another work in which provided a graphical representation of this concept.

The American author criticized the social component of a company. In an article published in the New York Times Magazine in 1970, Friedman stated that “there is one and only one social responsibility of business to us its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.” (Friedman, 1970). The American author, believed that the social responsibility, as intended until now, is a responsibility covered only by the role of the State. For Friedman, it is the State, and not companies, that has a moral and social responsibility towards its citizens. The company, as well as the managers, have the role and goal to maximize the profits and satisfy shareholders’ interests. The idea of Friedman had been criticized by later authors as Freeman (1984), father of the Theory of the Stakeholders.

In *Strategic Management: A stakeholder approach* published in 1984, Freeman defined stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” and underlined for the first time the fact that management must take in consideration the satisfaction of the needs and wants of the overall stakeholders[12], and not only the shareholders as Friedman sustained.

Freeman’s Theory of the Stakeholders[13], the globalization and the expansions of mind’s edges have opened the concept of CSR to new horizons like new elaborated theories as Corporate Social Performance (CSP)[14] and Business Ethics.[15] In 1980’s, Jones (1980) was the first author that considered Corporate Social Responsibility as a “decision-making process” that would have influenced the corporate behavior. This new approach led a new open debate on the operationalization rather than the study of the concept itself. This new debate was followed by a new framework in which authors as Armandi (1981), Strand (1983) and Cohran and Wood (1984)- that used the Moskowitz list[16] to explore the relation between CSR and financial performance-were recognized.[17]

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[12] Nowadays, we still define stakeholder management as a firm’s strategy for recognizing and responding to the interests of all its salient stakeholders. *See e.g.,* Vicentini (2016).

[13] More on this topic: Freeman (2016), pp.125-138; Friedman and Miles (2002), pp. 1-21; Donaldson and Lee (1995), pp. 65-91.

[14] Several studies have been made on this topic. *See, e.g.,* Swanson (1995), pp. 43–64; Sethi (1975), pp. 58–64, Carroll (1979), pp 497-505 and others.

[15] Business ethics refers to the Corporate Social Responsibility as a development and evolution of companies’ self-desire to disclose their actions undertaken in the social sphere. *See e.g.,* Frederick (1986), pp. 126–14 and Sacco (2006).

[16]Moskowitz (1972,1975) rated a number of firms as “outstanding”, “honorable mention”, or “worst”. An index used for many other studies.

[17] *See* Latapí Agudelo et al. (2019) for more on literature review on CSR.

The 1990's is a period in which the institutionalization of CSR increased considerably,[18] sustained by globalization and the entrance of multinational firms as new players in the game.

In 1991 Wood, starting from studies made by Carroll (1999) and Watrick and Cochran (1985) in previous years, defined three dimensions for Corporate Social Performance (CSP) and identified the outcomes of corporate behavior as social impacts. The first dimension is identified in the principles of CSP and they are: "The Principle of Legitimacy, The Principle of Public Responsibility and The Principle of Managerial Discretion." The second dimension is identified as the process of corporate social responsiveness and include: "Environmental Assessment, Stakeholder Management and Issues Management." The third dimension on outcomes include: "Social Impacts of Corporate Behavior and Corporate Social Programs and Policy". (Wood, 1991).

In the same year Carroll (1991) represented graphically the four main responsibilities of corporations, identified as economic, legal, ethical and philanthropic [19] and introduced the concept that companies should be "good corporate citizens." (Carroll,1991).[20] In order to achieve a full and complete corporate social responsibility, Carroll believed that a company must satisfy simultaneously the economic, legal, ethical and philanthropic responsibilities.

The last contribution of this period is the one provided by Burke and Logsdon (1996). They have identified five dimensions of Strategic Corporate Social Responsibility that result in a measurable and identifiable value creation, a higher economic performance for the firm. The five dimensions are:

1. "Centrality: Closeness of fit to the firm's mission and objectives,
2. Specificity: Ability to capture benefits by the firm,
3. Proactivity: Degree to which the program is planned in anticipation of emerging social trends and in the absence of crisis,
4. Voluntarism: The scope of discretionary decision-making and the lack of externally imposed compliance requirements and,
5. Visibility: Observable, recognizable credit by internal and/or external stakeholders for the firm." (Burke & Logsdon,1996).

[18] European Environment Agency, the UN summit on the Environment and Development, Agenda 21, UNFCCC, CSR Europe and many other projects focused on sustainability, society and governance, later in the chapter.

[19] Carroll (1979).

[20] Carroll based his ideas of corporate citizens, on something that had been already stated by McGuire in 1963: "the corporation must take an interest in politics, in the welfare of the community, in education, in the 'happiness' of its employees, and, in fact, in the whole social world about it. Therefore, business must act justly as a proper citizen would".

The positive correlation between CSR and economic performance that Burke and Logsdon proved in 1996, will be extended in our analysis for all companies quoted in the Milan Stock Exchange.

Corporate Social Responsibility is still difficult to define today. It is precisely from this historical and conceptual evolution that debates are still very heated in the XXI century. The next paragraph describes the final end of the evolutional concept of Corporate Social Responsibility in our century.

1.2 The third millennium

In the early years of the twenty-first century, Smith (2001) explained how corporate policies have changed as a response to public interest. The scope of Social Responsibility, from a company's perspective, was now inclusive to a larger set of stakeholders. Smith defined corporate social responsibility as "the obligations of the firm to its stakeholders – people affected by corporate policies and practices. These obligations go beyond legal requirements and the firm's duties to its shareholders. Fulfillment of these obligations is intended to minimize any harm and maximize the long-run beneficial impact of the firm on society." (Smith 2001, p. 142). Smith's definition acknowledged that CSR responds to the implicit social contract between business and society and may be incorporated within the strategic management of the company. A concept that would be restated and agreed by many authors after Smith, such as Lantos (2001) in the same year. Lantos explained that CSR may become a strategic tool, as long as positively correlated with the financial performance and returns of the firm and not the holistic desire to make a better world. The author introduced for the first time the link between the term strategic with CSR.

Later economists such as Husted and Allen (2007), Porter and Kramer (2006) and Warther and Chandler (2005), began to speak about Strategic Corporate Social Responsibility (SCSR). For Marrawijik (2003), SCSR is the response to the new roles and responsibilities of each sector of society. The interpretation provided by the author, is perhaps what links what literature has seen so far. CSR is motivated by the search and desire for sustainability, in line with the idea that companies have a new role in the society, and as such have to make strategic decisions to adapt to the external social environment. As already mentioned, a further step was made by Warther and Chandler in 2005. They recognized a shift in social responsibility that transformed "CSR from being a minimal commitment to becoming a strategic necessary, which can translate into a sustainable competitive advantage." (Warther & Chandler 2005, p. 319).

One year later, Porter and Kramer in 2006, made a step forward, building a notion of SCSR which helps companies to achieve a competitive advantage that result in the creation of shared value, in terms of benefits for the society while simultaneously improving the competitiveness of the firm. The company should first look "inside out" to identify the social impact of its value chain and possible positive and negative effect of its activities on the society, later should look "outside in" to understand the influence of society on their productivity and execution of business strategy. The analysis that companies need to make, is a double-reflex analysis; understand how you can share your value to the society, and how the society can share its value with you. For Porter and Kramer, CSR should be used with a holistic approach and not focused on certain objectives-such maximization of shareholders' interests- if not, it narrows the company's potential to create social benefits while achieving business goals.

The concept of creation of value, was reinforced by Husted and Allen in 2007. For them, SCSR generate new areas of opportunity though constant drive for creating value, which is at the same time linked to social demands. Husted and Allen started from the five dimensions of CSR built by Burke and Logsdon in 1996[21] and provided an own definition of SCSR. It is defined as the company's ability to:

1. "Provide a coherent focus to a portfolio of firm resources and assets-centrality,
2. Anticipate competitors in acquiring strategic factors-proactivity,
3. Build reputation advantage through customer knowledge of firm behavior-visibility,
4. Ensure that the added value created goes to the firm-appropriability." (Husted & Allen 2007, p. 596).

Even though, they did not define SCSR with the dimension of Voluntarism of Burke and Logsdon, their data showed that the relevant strategic dimensions of CSR linked to creation of shared value are visibility, appropriability, and voluntarism. In conclusion, Husted and Allen contribution on SCSR is twofold. From one side, it generates new areas of opportunities constantly creating value, which lead to innovation and on the other side, SCSR implementation is strongly related to social demand.

[21] Centrality- Specificity -Proactivity -Voluntarism-Visibility.

A last approach made on SCSR and creation of value was made by Heslin and Ochoa (2008). They explained that even when SCSR should be "tailor made", it still follows seven common principles:

1. "Cultivate the needed talent,
2. Develop new markets,
3. Protect labor welfare,
4. Reduce the environmental footprint,
5. Profit from by-products,
6. Involve customers, and
7. Green the supply chain." (Heslin & Ochoa 2008).

Companies can cultivate their interests while still creating value and benefits for the society and community in which they operate.

The last ten years have been characterized by further developments on shared value creation. Starting from a subsequent analysis of Porter and Kramer in 2011, claiming that "the purpose of the corporation must be redefined as creating shared value" and as such, the concept of CSV (Creating Shared Value) should replace CSR. (Porter and Kramer 2011, p.2). This perception of creating shared value, is evident in Leila Trapp (2012) and in what she defined the third generation of CSR. She identified CSR as a moment in which corporations reflect their concerns about social and global issues on their activities, even if some actives may not strictly be related with the core of their business. With this in mind, Trapp contributed to the new roles, consequences and responsibilities that companies are taking in order to generate shared value.

The third and later editions of Chandler and Werther's book *Strategic Corporate Social Responsibility* (2013) see a new perspective of SCSR, as central to the company's strategic decision making, to their day-to-day operations and to the creation of market-based products and/or services in an efficient and socially responsible way. The main contribution of the two authors comes from the implementation of the strategic CSR based on five main components:

1. The complete incorporation of the CSR perspective into the company's strategic planning process and their corporate culture,
2. The understanding that all the company's actions are directly related to the core operations,
3. The belief that companies seek to understand and be responsive to their stakeholders' needs,

4. The company passes from a short-term perspective to a mid- and long-term planning and management process of the firm's resources which is inclusive of its key stakeholders,
5. Firms aim to optimize the value created.

(Chandler,2016 and Chandler &Werther, 2013)

This last point emphasizes the main conception of Chandler (2016) that companies should focus on what they can do best with the aim at optimization and creation of value rather than the maximization of profits.

In 2015, Carroll (2015) concluded our discussion focalizing on the key elements of what have been analyzed so far. The author concluded that the concept of management and engagement of stakeholders, business ethics, corporate sustainability and creation of shared value are all interrelated, interconnected and overlapping concept that have been incorporated into Corporate Social Responsibility. For this reason, Carroll defined CSR as a "benchmark" and "central element" for the socially responsible movement. (Carroll 2015, p. 88).

The publications in the last five years, focused the attention on specific analysis, relating CSR to different aspect of the economic world. There are not relevant publications that can improve our actual knowledge in defining CSR concept.

The next paragraph emphasizes the importance of an institutionalist approach in defining and advance Corporate Social Responsibility worldwide.

2. A new institutionalist approach

The role of European Union, as well as United Nations and political institutions, have been important for the development of corporations in the society. Institutions' interventions are traced back to the early 1970's with the creation of several Federal Institutions in the USA, such as the EPA[22]; though the early 1980's with President Reagan and the establishment of the World Commission on Environment and Development[23], through the Montreal Protocol[24] in 1987, the creation of the IPCC[25] in 1988, the UN-Rio Declaration on Environment and

[22] United States Environmental Protection Agency. *See also* https://www.epa.gov

[23] The General Assembly welcomed the establishment of a special commission that should make available a report on environmental and global problems to the year 2000 and beyond. Further details at: https://sustainabledevelopment.un.org/milestones/wced

[24] A global agreement to protect the stratospheric ozone layer, by imposing restrictions on the production of materials that destroy this layer of the atmosphere.

[25] International Panel on Climate Change. United Nations body for assessing the science related to climate change. *See also* Union of Concerned Scientists. (2017) and https://www.ipcc.ch

Development[26] in 1992, the adoption of the Kyoto Protocol[27] and the Ron Brown Corporate Citizen Award[28] in 1997, until the launch of UN Global Impact and UN MDG's in 2000, furthermore, the European Strategy on CSR in 2002, the European Roadmap for Business in 2005, ISO26000 in 2010, the renewed EU Strategy for CSR for the years 2011-2014, the Paris Agreement and the launch of the UN Sustainable Development Goals in 2015, until the EU Directive 2014/95/EU in 2018.

Our analysis will focus on the relevant recent implications and interventions of international organizations, starting from the launch of the UN Global Compact in 2000.

2.1 UN Global Compact and Millennium Development Goals

In the late 1990's, the Corporate Social Responsibility and Sustainability began to merge in just a single and interconnected concept and became an internationally treated topic. It is not until 1999, that CSR gained global attention with the speech of Secretary General of the United Nations, Kofi Annan, who at the World Economic Forum[29] proposed the launch of the United Nations Global Compact (UNGC), gathering 12 civil society organizations and 44 global companies. The aim was the one to promote a more global economy towards a sustainable world (United Nations Global Compact, n.d.). The best achievements made by the UNGC was the definition of ten principles[30] that would have guided companies to implement CSR policies and strategies. The ten principles are:

"Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

[26] It defines the 27 principles on rights and sustainability that States must follow in order to develop a sustainable growth. *See* Tokuç (2013) for more.
[27] The protocol commits industrialized countries and economies in transitions to limit and reduced greenhouse gases (GHG) emissions.
[28] It is a U.S. presidential honor for those companies that have demonstrated high initiatives to innovate for to empower their employees and communities as well as their strategic business interests.
[29] International NGO founded in 1971. The main aim is the one to improve the state of the world, engaging business, governments and other leaders. Further details available at: https://www.weforum.org
[30] Derived from the Universal Declaration of Human Rights, International Labor Organization's Declaration on Fundamental Principles and Rights at Work, Rio Declaration on Environment and Development and United Nations Convention Against Corruption.

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

4. the elimination of all forms of forced and compulsory labour;

5. the effective abolition of child labour; and

6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;

8. undertake initiatives to promote greater environmental responsibility; and

9. encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery."[31]

The following year, the United Nations adopted the Millennium Development Goals (MDGs) and set the international agenda for the following 15 years. Starting from 2000, the Millennium Declaration identified fundamental values essential to global relations.
These values characterized the final goal of both United Nations and companies' policies, and they are:

1. "Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Global partnership for development." [32]

The promotion of CSR at European Strategy level begun one year later, when in 2001, the European Commission presented a Green Paper: *Promoting a European framework for Corporate Social Responsibility*. The first definition that has been given at the beginning of our discussion is the one presented by EC in this Green Paper (2001).

[31] Available at: https://www.unglobalcompact.org/what-is-gc/mission/principles
[32] Available at: https://www.undp.org/content/undp/en/home/sdgoverview/mdg_goals.html

It defined Corporate Social Responsibility 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" (Ch. 2). These words represent everything that has been analyzed so far. They represent the evolution of a concept that has lived through all the historical phases that history books face. These words represent a dynamic and destructive evolution. They represent years of riots, fights, wars, protest, goals and struggles to achieve rights that today we take for granted. A single sentence, which contains such profound and real values, which have been the cause of deep wounds and miraculous healings. These words should remember us, the key concepts that the previous paragraph emphasized.

- it deals with "voluntary basis", since are single companies that decide to adopt CSR policies and strategies, beyond legal restrictions.
- it refers to the three dimensions of sustainability (environmental, economic and social)[33]
- it refers to "stakeholders", relating with the importance of the Freeman's Theory of Stakeholders.

A last attempt has been made in 2011 by the European Commission, defining the CSR as "the responsibility of enterprises for their impacts on society and outlines what an enterprise should do to meet that responsibility." (European Commission 2011, par. 2). Companies are asked to assume a role in the society, and to assume economic, social and environmental consequences of their actions. The 2011's definition, make a step forward the 2001's one, since now being part of a society and being socially responsible is not anymore on "voluntary basis", but has to be in line with international and global legislations.

Beyond the definitions on CSR, European Union has played a determinant role in the development and evolution of the concept during the new millennium. From 2001 and 2005 EC held some conferences discussing CSR at global level [34] and launched *European Roadmap for Business-Towards a Competitive and Sustainable Enterprise*. In 2015, EC held a multi-stakeholder forum to understand the impact of European policies as well as help define the next strategies to implement.[35]

The next paragraph focuses on two determinant events that notably increased the attention on CSR, Sustainability and Corporate Citizenship.

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[33] Triple Bottom line: assessment of a firm's financial, social and environmental performance. Founded by John Elkington in 1998. *See* Vicentini (2016), p. 19.
[34] "What is CSR"- Brussels; "Why CSR"- Helsinki; "How to promote and implement CSR"- Venice.
[35] European Commission (2015).

2.2 Paris Agreement and Sustainable Development Goals

The Paris Agreement, adopted by 196 Parties at COP[36] 21 in Paris on December 2015, is a legal binding international treaty on climate change with the aim to involve signatory countries in the fight against climate change. The agreement established that the increase of the global average temperature shall be kept under control at a maximum of 2°C relatively to the pre-industrial level, and generally it shall not overcome 1,5°C. Each State needs to determine its own Nationally Determined Contributions (NDCs), commitments undertaken in reducing greenhouse gases and in controlling the level of temperatures for a cycle of five years each. Starting from 2023, these NDCs will be reviewed periodically, by the Global Stocktake process, in order to measure the effectiveness and actual achievements. [37]

Another step forward a better world, was achieved in the same year. The 2030 Agenda for Sustainable Development-based on 17 Sustainable Development Goals- was adopted by the United Nations Member States in 2015, with the aim to provide a blueprint of prosperity and peace for all people in the globe. At the heart of this attempt, the 17 SDGs (UNDP 2021) are urgent calls for action now and in the future, for a better world. The base concept of these goals is to develop a network of global strategies that improve education, economic growth and health while reducing poverty, rights' deprivations and keeping an eye on climate change and a sustainable future. In 1992, at the Earth Summit, more than 178 countries adopted Agenda 21, an action plan to build a global cooperation and partnership for sustainable development. Later on, as we already saw, the UN adopted the Millennium Development Goals (MDGs), as well as in 2002 the Johannesburg Declaration on Sustainable Development and the Plan of Implementation. Furthermore, at the United Nations Conference on Sustainable Development (called Rio+20) in 2012, Member States adopted "The Future We Want", a process to develop a set of SDGs based on an extension of MDGs. In January 2015, the General Assembly began the negotiation process for the post-2015 agenda. This process terminated in the adoption of the 2030 Agenda for Sustainable Development in September 2015.[38]

[36] UNFCC members meet annually in the Conference of The Parties. Another important COP is the one made in 1997 in Japan: Kyoto's protocol.
[37] More information available at: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[38] This year was characterized by several intranational policies such as Sendai Framework for Disaster Risk Reduction, Addis Ababa Action on Financing Development and many others.

The 17 SDGs goals are:

1. "No poverty. End poverty in all its forms and everywhere
2. Zero hunger. End hunger achieve food security and improved nutrition and promote sustainable agriculture.
3. Good health and well-being. Ensure healthy lives and promote well-being for all at all ages
4. Quality education. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Gender equality. Achieve gender equality and empower all women and girls
6. Clean water and sanitation. Ensure availability and sustainable management of water and sanitation for all.
7. Affordable and clean energy. Ensure access to affordable, reliable, sustainable and modern energy for all.
8. Decent work and economic growth. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
9. Industry, Innovation and Infrastructure. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
10. Reduce inequalities. Reduce inequality within and among countries.
11. Sustainable cities and communities. Make cities and human settlements inclusive, safe, resilient and sustainable.
12. Responsible consumption and production. Ensure sustainable consumption and production patterns.
13. Climate action. Take urgent action to combat climate change and its impacts.
14. Life below water. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
15. Life on Land. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
16. Peace, Justice and Strong Institutions. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
17. Partnerships for the goals. Strengthen the means of implementation and revitalize the global partnership for sustainable development."[39]

[39] *See* https://sdgs.un.org/goals

Today, these goals are annually reviewed by the High-level Political Forum on Sustainable Development. The DSDG (Division for Sustainable Development Goals) and the UNDESA (UN Department of Economic and Social Affairs) provide additional advice and support in order to provide a clear guide and support in the SDGs implementations at microlevel, as well as the overall measurement and achievements around the globe. [40]

From the Report of 2020 published by Istat[41], seems that Italian companies reached these goals in their overall. In particular, there has been a positive increase in goals regarding hunger, education, clean energy, responsible consumption and production and global partnerships, while poverty received a negative trend.

The next paragraph focuses the attention on the legal aspect of CSR both at international and European level.

3. Legal Framework

3.1 International legal framework

The increasing importance of CSR on a global scale, has also set the legislative world in motion. At international level, the increasing globalization and cross-border activities of multinational corporations (MNCs) and large corporations, have emphasized the scientifically influence they have over the communities in which they operate. As Buturoaga (2017) sustained, it was necessary to develop a new dialogue and coordination among companies by various jurisdictions to facilitate the development of regulatory frameworks capable of transcending global boundaries. Several of the international regulations comes from public international bodies such as International Labor Organization (ILO)[42], with Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (International Labor Organization 1977), International Standards Organization (ISO)[43], with ISO 26000 (ISO n.d.) and Organization for Economic Development (OECD)[44], with the OECD Guidelines for Multinational Enterprises in 1976.

[40] *Ibid.*
[41] *See* Istat (2020).
[42] ILO is the only tripartite U.N. agency. Since 1919 it brings together governments, workers and employers of 187 member States, to set standard of labor, develop policies and devise programmes promoting decent work for all mankind. Further information at: https://www.ilo.org/global/lang--en/index.htm
[43] ISO is an international organization. Founded in 1947, it promotes industrial, proprietary and commercial standards at global level. Further information at: https://www.iso.org/home.html
[44] OECD is an international organization. Its goal is to shape policies that foster equality, prosperity, opportunity and better lives for all. Further information at: http://www.oecd.org/

ILO adopted Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in order to promote a positive approach of MNEs to economic and social progress. The Tripartite Declaration stipulates that MNE's should obey national laws, international standards, honor voluntary commitments and harmonies their businesses in the country in which they are operating; governments should implement suitable measures to deal with employment impact of MNEs and in developing countries, MNEs' should provide best possible wages, better conditions of work, allow the satisfaction of basic needs of the community in which they operate and cooperate with governments if necessary. The Tripartite Declaration applied to governments, corporations and workers to both home and foreign countries.

ISO 26000[45] was set in 2010, by International Standards Organization, with the assistance of 450 CSR specialists from 99 different countries and 40 international organizations [46], with the aim to provide a set of guidelines in order to encourage a voluntary participation in CSR strategies and policies as well as defining common guidance on concepts, evaluations and implementations. (ISO n.d.).

Lastly the United Nations introduced Norms on the Responsibilities of Transnational Corporations and other Business Enterprises with regard to Human Rights (UN Norms) [47], based on existing international provisions of human rights, worker rights and labor standards. They were implemented with the aim to establish a legal framework of responsibilities of companies regarding corruption, security, environmental sustainability and workers' rights. The UN Norms are not a formal treaty under international laws, therefore not legally binding.[48]

3.2 European Union's legal framework

In order to extend the integration of European market, it has been developed a system of harmonization of CSR provisions, called "information model". (Grundmann 2011, p.165) .
This mechanism allows to clarify an additional step made towards the adoption of the CSR Directive 2014/95/EU (European Commission 2014), based on a "comply or explain"[49] regulatory technique, requires the disclosure and business organizations reporting of non-financial activities starting from reports in 2018, so as to develop a uniform distribution channel

[45] In 2002, ISO proposed the creation guidelines to provide quality and environmental managements standards (ISO 9001 and ISO 14001). After 5 years, a working group coming from Brazil and Sweden, collaborating with stakeholders and national Standards Bodies came up with the ISO26000.
[46] *See also* Latapí Agudelo et al. (2019).
[47] Interested readers should *see also:* Hillemanns (2003); Weissbrodt and Muria (2003) and Ene (2018).
[48] More at: https://www.unodc.org/unodc/en/justice-and-prison-reform/compendium.html
[49] If no such policy is applied, the statement shall contain an explanation as to why this is the case.

at European level, which enables standard signals on CSR activities to investors within the market. The European approach and policies are in line with the international ones, as the recital in 2014/95/EU provides.[50]

The CSR Directive applies to listed companies and public interest companies[51] with 500 employees or more. They are obliged to publish an annual statement containing information to environmental matters, social and employee-related matters, and respect for human rights, anti-corruption and bribery matters.[52] The non-financial report (NFR) must contain policies, outcomes and risks of these activities, the due diligence process implemented by the undertaking, including the supply and subcontracting chains. The statement must provide an explanation of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of the diversity policy, how it has been implemented and the results in the reporting period.[53]

As we said above, the Directive has a regulatory framework of comply or explain. This does not mean that can be seen as safe harbor; few are the exceptional cases in which the Member States implementing 2014/95/EU, allow companies not to disclose non-financial activities in course of negotiation, if prejudicial to the entity's commercial interest. Member States may additionally allow companies to provide a distinct non-financial statement from the management report, if it is published right after, or simultaneously when the management report is published, or within two months. The Member States are in charge of the administrative, management and supervisory bodies for the application of the Directive.

The main outcomes and goals are consolidation and standardization of transparency[54] in European business environment. As Patrick C. Lynes (2018, p. 172) said "its effects will come over time and they can include changes of the societal role of corporations as well as of directors' duties."

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[50] Recital 9 CSR Directive; "national frameworks, Union-based frameworks such as the Eco Management and Audit Scheme (EMAS), or international frameworks such as the United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation's ISO 26000, the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy, the Global Reporting Initiative, or other recognized international frameworks."

[51] PIEs are any entity designed by an EU as such, if they have a significant public importance due to their power or size.

[52] Recital 6, Art 19a, CSR Directive.

[53] *See* Voss (2019), pp.359-381.

[54] Other existing Ethic Codes, Standards and Certifications such as EMAS, ISO 14001, SA8000.

4. Future of CSR

The future on Corporate Social Responsibility is still very debated. The latest writings suggest that what is happening in the society is what was predicted by Carroll in 2015. As we stated above, the author concluded that the concept of management and engagement of stakeholders, business ethics, corporate sustainability and creation of shared value are all interrelated, interconnected and overlapping concept that have been incorporated into Corporate Social Responsibility. Carroll believed that this increasing path of interrelation, thing that it is clear evidence in our society, may slow down in the future coming. Only time will tell if the institutionalization on CSR will continue or if the main public and private institutions will be attracted to something new that is dominating the market. The next future must take in consideration the new needs of the society and community, the technological discoveries, the new adaptation of the digitalization and production process.Corporate Social Responsibility shall adapt or innovate if it wants to dominate or survive in the market. The obstacle is adapting by always making a better world.

During the recent years, numerous companies started to feel the breeze of being a socially responsible citizen; not only donating to charities or public goods, but focusing on sustainable investments, as well as corporate governance and social interest.

The next chapters focus the attention on ESG Score and on the importance of CSR in the management of companies.

II. CSR FROM TWO OPPOSING PERSPECTIVES

Environmental concerns as well as well-being of the society increasingly represent issues that organizations must integrate into the core businesses of their strategies and business practices. Today's managers are requested from various groups to devote part of company's resources to CSR initiatives. These pressures arise not only from groups as non-government organizations (Doh & Guay, 2004), shareholders (O'Rourke, 2003) and customers (Roberts, 2003), but also from responsible investors, communities (Aslaksen & Synnestvedt, 2003) and societal trends, such as the fast-growing concern on ethical consumerism and institutional expectations. (Waddock et.al., 2002). Furthermore, the perception of an unethical company may lead to the alienation of "the organization from the rest of society, resulting in reduced reputation, increased costs and decreasing shareholder value". (Hill, 2001, p.32). On the other side, responsible behavior may create substantial benefits though the growth of positive attitudes towards the company and its products (Brown & Dacin,1997), as well as the development of a sustainable competitive advantage (Porter & Kramer, 2006).

As previously analyzed, the concept of CSR is very complex and has led to completely different conclusions throughout history. The confrontation between shareholders and managers is one of the main problems and constraint that executives face every day. They are forced to justify strategic actions that could benefit the entire company to people who have limited knowledge and who do not fully understand the magnitude and importance of the actions that the company carries out on the territory.

This chapter focuses on how the main practices of managers may directly or indirectly increase company's reputation, financial performance and shareholders' value as such. It focuses on issues and trade-offs that managers have to face in their daily work in order to implement strategies and take decisions consistent with the vision, mission and business model of their own company- exploiting opportunities and adapting to the fast-changing external environment. Starting from managers' point of view on the topic, the chapter moves to stakeholders' perspective.

1. Strategic management perspective

An obvious question, relevant to managers, is whether CSR makes sense from a strategic point of view. As analyzed before, several commentators have argued that corporate social responsibility is important for the company's competitive advantage (Porter & Kramer, 2006) and its relations with the whole society. Hart (1995) introduced his "natural-based-view" of the firm. The author argued that in order to maintain the competitive advantage in the long-run, firms have to take in consideration the natural environment in which they are operating in. Similarly, Eccles at. al. (2013) emphasized the strategic importance of the CSR practices as a dynamic process. They argued that these practices in the long run can survive only if firms continuously innovate in new products, new business models or processes. In doing so, the companies can improve overall societal welfare and make society more sustainable. Literature points to a future in which companies concentrate on more sustainable initiatives; not only by focusing on reducing pollution, but also by integrating sustainable practices into key managerial decisions.

Once the importance of CSR at managerial level has been identified; a question arises spontaneously. Companies cannot become the defender of the society, which solve any kind of problem. Instead, each company must focus on issues, in which it is able to make a positive impact, always balancing its strategy, business model, vision and mission. Furthermore, the development and implementation of a CSR strategic agendas by organizations becomes a determinant process though managerial understanding and sense making. (Cramer et al., 2006). This process helps companies to fully understand and clarify the underling motivations, as well as identifying the main stakeholders needs and priority issues in the society. This initial process, requires managerial capabilities and perceptions, involved in the identification of what is best for the own company. It is therefore important that a company defines the main issues on which to operate, in order to define effective CSR initiatives. Once this is done, executives define the appropriate strategies that positively influence the surrounding environment and the company itself. At this stage, capabilities, past experiences, perceptions[55] and personal characteristics of managers are driving forces in defining the future path of the business.

[55] Perception refers to the dynamic psychological process responsible for attending to, organizing and interpreting sensory data. *See* Buchanan and Huczynski (1997, p.46).

The managerial perceptions might be identified as "the substratum that business decisions feed upon" (Santos & Garcia, 2006, p.752). In this "substratum", personal characteristics of executives are key determinants to interpreter stakeholder's expectations, in doing so, managers must navigate into the "oceans of events that surround the organization and actively try to make a sense of them" (Daft &Weick, 1984, p.206). Thus, the task of management, it is to understand the past, the present and future operating environments in order to exploit opportunities and defeat threats. Several studies have showed that relevant managerial interpretations, that may be different from manager to manger, have contributed to the success of the business (Downey & Slocum, 1975 and Miller,1993), while misinterpretations of the external world have led to deterioration and crises (Milliken,1990). Previous researches confirm the importance of differences in individual drivers such as values, beliefs, educational and cultural backgrounds, in shaping the single manager perception about societal issues and CSR initiatives (Dashpande,1997 and Quazi, 2003). For example, women have a higher tendency toward CSR practices (Burton & Hagarty 1999), more risk-averse managers are less disposed to invest in CSR initiatives and mangers with more experience are more inclined to implement effective strategies in order to satisfy stakeholders' needs (Thomas & Simerly,1994). In this way, the company is guided by several commanders who could change direction depending on how they perceive the surrounding events.

The convergence between managerial perceptions into an organizational interpretation, leveraged by existing organizational attributes and features, may be supported, specifically in large corporations, by CSR committee or distinct department. CSR committees are composed by managers who prioritize issues and CSR practices, contextualizing them at their own corporate level. Such committees deal with and evaluate all CSR initiatives, coordinate the whole corporate system and direct the business in a more sustainable future. In the last chapter, it will be possible to understand the relationship between companies with such committees with ESG scores and best-practices. Furthermore, the development of a CSR strategic agenda should aim at the equilibrium in doing some good by developing interconnected initiatives that, from one side, help to manage the relationships determinant for the future success of the company, and on the other side, resolve any dilemmas among the competing interests of stakeholders, specifically shareholders (Werther & Chandler, 2006).

The dominant element, in order to fully understand the meaning of CSR from a strategic management perspective, it is how managers define the company they are leading in this journey. Managers should see the world as interrelated and overlapping networks, they should recognize the interconnections among the different elements of the system and then synthesize

them into a cohesive view of the world as a whole (Anderson & Johnson, 1997). Organizations must be seen as open systems, that must interact with the external and internal environment. Organizations must be seen as citizens of a society, and as such, restrained by governmental policies and social duties. Once managers, like every member of the company, have entered into this way of thinking and seeing the company, they are able to understand and proactively respond to incoming issues at local, regional and international level.

In conclusion, managers face growing challenges to actualize the breeze they perceive from the market. If able to seize the opportunities, they can lead not only the company to financial success but also to the ethical one, which benefits the shareholders and society at broad. Differences between managers' experiences and personalities, career advancements and personal benefits of managers in implementing CSR practices, leave the other side of the story very skeptical. Stakeholders consider these practices only as a way for executives to take advantage of them, to gain decision-making power and to achieve personal benefits behind their shoulders. This is exactly the focal point of our analysis, to understand if the stakeholders' point of view, specifically shareholders' one, is justified by empirical evidence, or by a mere superficial general opinion.

The next paragraph focuses the attention of stakeholders' side of the story, with a specific focus on shareholders and how investors' practices and initiatives are getting align with the managers' ones.

2. Stakeholders' perspective

As previously anticipated, CSR may be seen as a skeptical practice by the main stakeholders' groups. Comparing the Theory of Stakeholders (Friedman, 1970) and Corporate Social Responsibility as broad concept, it will be possible to understand the main limitations of CSR and how these may affect negatively groups of stakeholders involved in the company's life. Both Theory of Stakeholder and CSR stress the importance of businesses' responsibilities toward society and communities. While the former focuses the attention on local communities in which the company operates (employees, suppliers, customers, financiers and so on), the latter tends to extend the social orientation much further, often to its maximum level, focusing on the society at large. This means that from a CSR perspective, the company prior aim is the one to satisfy needs of the society and not the one of its direct stakeholders. The best hypothesis would be the situation in which the two theories merge, so that, starting from the needs of the stakeholders, companies can satisfy the society at large.

The main critiques on CSR may be grouped in three main categories: "Violating Obligation to Shareholders, Covering Wrongdoing and Create False Dichotomies." (Freeman & Dmytriyev, 2017). For the authors- strongly influenced by Friedman's Theory of Stakeholders- corporate social responsibility would have distracted executives from their main goal and objective: the one to maximize shareholders' welfare and satisfy their needs. CSR may also lead to different and wrong perceptions of the business in the society. To recover reputation, executives must do something good- engaging with communities and societies. This practice would not be executed out of the piety and good sense of citizenship of managers- that really believe in what they are doing, working for a better and more sustainable world of tomorrow- but for the simple fact that the company has to clean up and cover some wrongdoings. If seen in this way, CSR is nothing more than a way to cover up mistakes made in the past, using and wasting resources that would have been used to increase company's performance or that would have been redistributed to shareholders as dividends, as well as confusing future investors, employees, customers and suppliers on the actual value of the company. Corporate Social responsibility has been criticized for furthering a set of questionable dichotomies as Business vs. Ethics, Profits vs. Society and Economic vs. Social. Generally speaking, helping communities should not be seen as a tool for redemption, for cover wrongdoings and for taking advantages on stakeholders. If each company and their respective leaders follow what the theoretical evolution teaches us, abuse of this kind should not arise in the first place. CSR practices are beneficial for both companies and societies, they increase awareness on hot matters as sustainability, pollution, human rights and all those topics already mentioned in the 17 Sustainable Development Goals. Corporate Social Responsibility gives hope for a better future, a future that leaves no one behind and cares for the world in which we are living. CSR practices and initiatives do not waste resources, since if carried out in the right and strategic way, as saw in the previous paragraph, they are weapons used not only by managers in a company, but by the society itself. The concern of stakeholders is legitimate when managers decide to take selfish actions which, however, must not be considered under the sphere of CSR.

The need for a more sustainable and fairer environment has let the financial world to be more sensible on this topic. Investors have begun to invest more and to recognize higher value, to all those ethical companies, which is why, investments in CSR have increased significantly in recent years, becoming a sensitive topic for the success of a company.

The next paragraph focuses the attention on Socially Responsible Investing, considered as the new safe haven for many investors.

2.1. Socially Responsible Investing

Given the growing importance of the Socially Responsible Investing (SRI), it is very unusual that there is still not an overall and accepted agreement of what SRI term means for investors. Nowadays, there is a wide category of financial assets that combine economic performance together with the creation of an impact on the social and territorial sphere, recognized by the literature as socially responsible investments.[56] The responsible investor operates according to an aggregate utility function aimed at creating an extended and equally distributed value on society and the environment, with the ultimate aim of bringing better conditions to the context in which he or she lives. (Landi, 2018).

The Italian Sustainable Investment Forum (2014)- main body of reference for institutions that want to invest in ethical finance- has defined the SRI as an investment strategy oriented to the medium-long term which, in the evaluation of companies and institutions, integrates financial analysis with environmental, social and good governance, in order to create value for the investor and for the society as a whole.[57]

Depending on the different organizations[58], it is possible to identify different classification of SRI strategies as shown in the Table below. The specific analysis of each agency and related categorizations is not the aim at this moment, but this table is important as it emphasizes how these strategies are equivalent in spite of different nomenclatures.

[56] "as time has passed the term ethical investment has increasingly been replaced by that of socially responsible investment". *See* Sparkes & Cowton (2004, p.46)

[57] "L'Investimento Sostenibile Responsabile (SRI, dall'inglese sustainable and responsible investment) è una strategia di investimento orientata al medio-lungo periodo che, nella valutazione di imprese e istituzioni, integra l'analisi finanziaria con quella ambientale, sociale e di buon governo, al fine di creare valore per l'investitore e per la società nel suo complesso".

[58] Euronif (European Sustainable Investment Forum) is the leading European association dedicated to promoting sustainable and responsible investments in Europe. Gsia (Global Sustainable Investment Alliance) collaborates with the largest international organizations for sustainable investments. PRI (Principles for Responsible Investment)- supported by UN- promotes responsible investments through the application of the six principles it has identified. EFAMA (European Fund and Asset manager Association) is the representative investment management association of the European market.

Table 1. Categorization of SRI Strategies.

EURONIF	**GSIA- equivalent**	**PRI- equivalent**	**EFAMA- equivalent**
Exclusion of holdings from investment universe	Negative/exclusionary screening	Negative/exclusionary screening	Negative screening or Exclusion
Norms- based screening	Norms- based screening	Norms- based screening	Norms- based approach (type of screening)
Base-in-class investment selection	Positive/ best-in- class screening	Positive/ best-in- class screening	Best-in-Class policy (type of screening)
Sustainability themed investment	Sustainability themed investing	Sustainability themed investing	Thematic investment (type of screening)
ESG integration	ESG integration	Integration of ESG issues	-
Engagement and voting on sustainability matters	Corporate engagement and shareholder action	Active ownership and engagement (three types): 1. Active ownerships 2. Engagement 3. (Proxy) voting and shareholder resolutions	Engagement (Voting)
Impact investing	Impact/community investing	-	-

Source: Eurosif, European SRI Study 2018, 2018.

The sustainable investor operating on the financial markets adopts a portfolio approach, following a strictly financial logic and based on careful ethical diversification. On a practical level, shareholders have different types of investments' strategies.

The "Exclusion of holding from investment universe"- also known as "negative screening"- systematically excludes companies if involved in certain activities as weapons, pornography and tobacco. For example, mutual funds do not include in their practices all these "sin stocks".

The construction phase of a portfolio is based on three main processes: “Ethical Screening, Engagement and Community Investing” (Landi, 2020). In the Screening phase, an ethical investor identifies the securities to be included in a portfolio based on an inclusive process, called “positive screening”. (Kinder & Domini, 1997). In this way, the investor is not limited in excluding companies with questionable products, but periodically supports companies that offer socially responsible ones. The mere exclusive process of companies relies under the “negative screening” strategy that registers high popularity due to its low necessity of high competencies and capabilities. Instead, the positive screening methods are continuously upgraded and modified, which is why they keep stakeholders and shareholders always updated on the selected companies.

The “Norms-Based Screening” (NBS) allows investors to select businesses in line with the level of compliance of international standards and norms in the society. Norms refer to areas as environmental protection, human rights and anti-corruption, all those principles defined by OCSE, ONU and other agencies as ILO, UNEP, UNICEF and/or UNHCR.

The “Best-in- Class” strategy allows investors to choose companies that have the best ESG Score in a particular industrial sector. A Best-in-Class (BIC) portfolio generally includes companies that satisfy both financial performance and ESG.

The “Sustainably themed investment” translates into the selection of assets that are specifically related to sustainability in a single or mutual themed funds. The investor will choose specific investments depending on the theme, in this case on sustainable ones as renewable energy, sustainable logistics and water or waste management.

The “ESG Integration” is the practice of incorporating ESG information into investment decisions. The next chapter will have a specific focus on this topic.

Furthermore, “Engagement and voting on sustainably matters” is based on developing a dialogue between shareholders and executives with the aim of raising awareness of corporate practices on issues such as that of sustainability. This process emphasizes the importance of the active participation of shareholders in the life of the company. The increase of a dialogue between shareholders and companies aimed at encouraging more sustainable and ethical practices (Camey, 1994) is one of the main reasons why it has been possible to identify an increase in SRI in recent years.

A similar approach on Engagement has been identified as “Community Investing” (Schueth, 2003). It is based on active dialogues between the company and the communities, debates and self-reflections on social and environmental issues. This allows an investor to gather information for planning his or her portfolio. Investors who undertake this type of investment support the improvement of a functioning society in all its aspects.

Lastly, “Impact Investing”, a strategy that takes into account investments that generate social and environmental benefits for the community, while recognizing a fair economic return. (Bugg-Levine & Emerson, 2011).

The importance of ethical and sustainable investments has influenced not only individual investors but also the financial market itself. Another type of SRI may be recognized as “Social Venture Capital”, which goal is to support companies with a strong social awareness. These companies are born with the aim of providing real social change through their services and products. (Kickul & Lyons, 2015). Each Social Venture Capitalist can adopt different organizational approaches when deciding to provide capital for new projects, such as supporting the executive department and providing adequate training. The financing of the start-up phase of a business, called “seed financing”, is aimed at detecting significant shareholdings of future investors, to guarantee a stable fund that can reassure possible mistakes of mangers and greater margin for low profit, but high social performance investments.

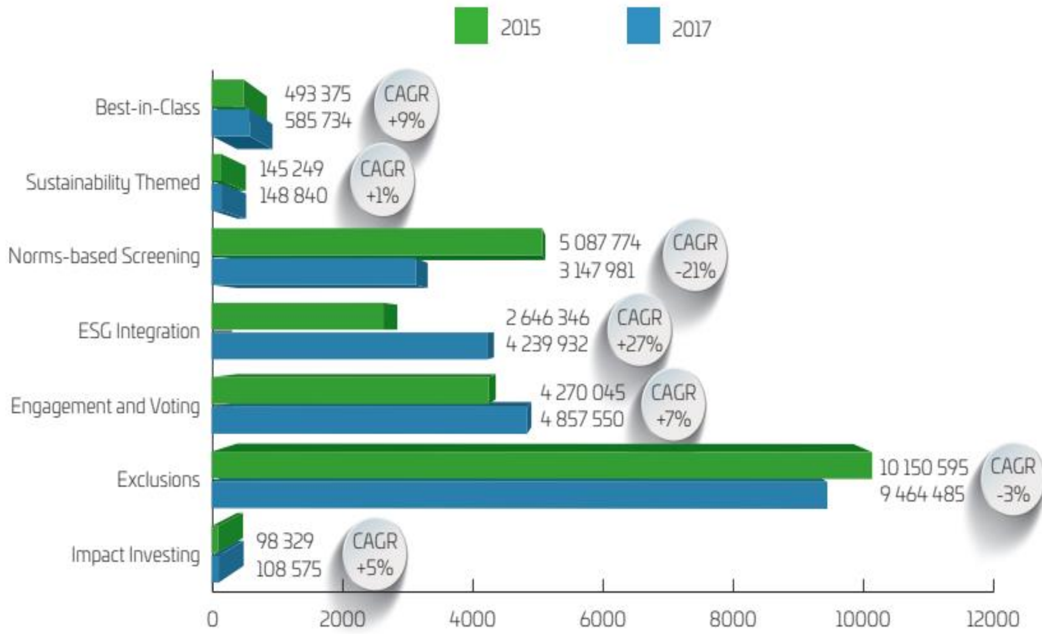
One of the most innovative products in microfinance that has experienced exponential growth in recent years is “Social Crowdfunding”, an instrument that collects small shares on a global scale. This tool, which has become more practical with the access of the internet and new technologies on the market, allows to collect small shares on the web without selection and geographical limitations.

The methods of supplying the capital for new projects or start-ups can take place in different ways: “donation, reward, lending and equity.” (Landi, 2020). The system based on “donations” relies on making arbitrary donations to projects by private donors, called crowd-funders. As for the raising of “reward-based capital”, the initiators of a project can promise a reward to anyone who has invested and believed in the idea, if successful. The “landing-based system” relies on investors that lend capital and expect debt repayment in the near future. The last approach is an “equity-based system” which relies on raising capital from small investors in the market. The great diversification and heterogeneity of shareholders does not lead to major organizational and relationship problems, as power is dispersed, and managers have full control.

Socially Responsible Investments have increased in later years in the whole world. In United States, from 1995 to 2005, SRI increased by 1200%, counting as 10% of the activities carried out by investment funds (Ziegler & Schroder, 2009), while in Europe it was registered an increase by 27% for those investments including the ESG paradigm and an increase by 5% relating to the impact investing (EUROSIF, 2018).[59]

As it is observable in the Figure below, responsible investors have their preferences, and they express their views more concisely in their investments decisions choices than ever before. While the Compound Annual Growth Rate (CSGR)[60] has increased for all strategies, there are some clear and defined leaders. Data suggests that ethical investors base their decision on two main essentials: ESG Integration and Engagement and Voting; reason for which in the last years it has been registered a peak on those two practices. Owners and producers increasingly feel their needs to be more active and show their engagement in what they are investing in. The Figure below provides an overview of SRI strategies in Europe, same strategies that have been described in the paragraph.

Figure 1. Overview of SRI strategies in Europe

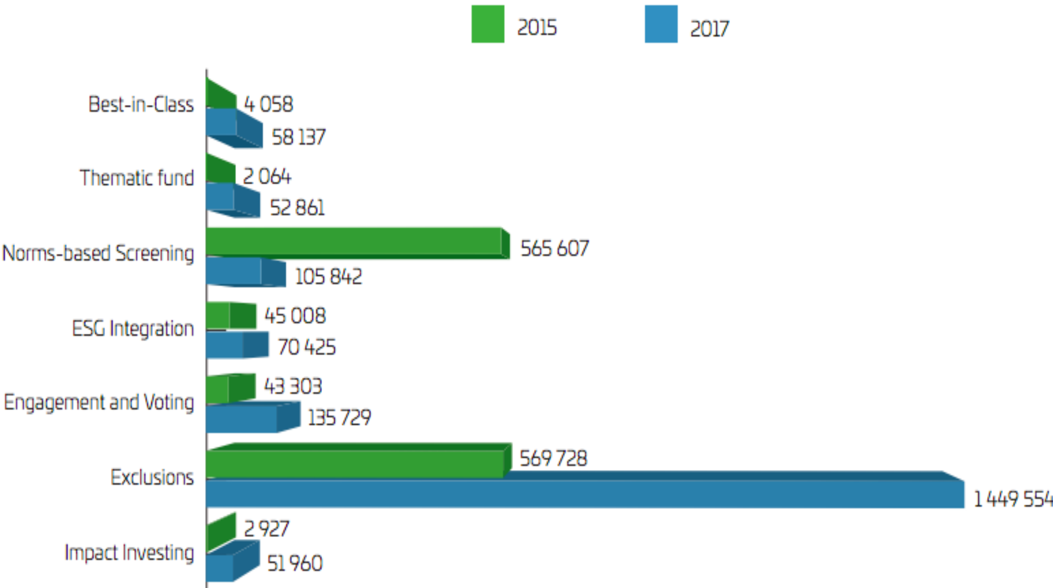


Source: Eurosif, European SRI Study 2018, 2018.

[59] European SRI Study (2018): 263 asset managers and asset owners with combined assets under management of EUR 20 trillion, representing market coverage of 79%.
[60] CSGR is the annual growth of investments over a specific period of time. It is a measure of how much an investor has earned over a specific interval of time.

Similar conclusions can be drawn for Italy. As shown in the Figure below, Exclusions and Engagement and Voting (EV) still represent the leading share of the SRI market. The recorded increase in the use of the Engagement and Voting strategy in Italy, but also in the rest of European countries and, as we will see in the rest of the world; provides a clear indication of investors' willingness to engage with the companies in which they invest and to contribute positively to the sustainability of their business model.

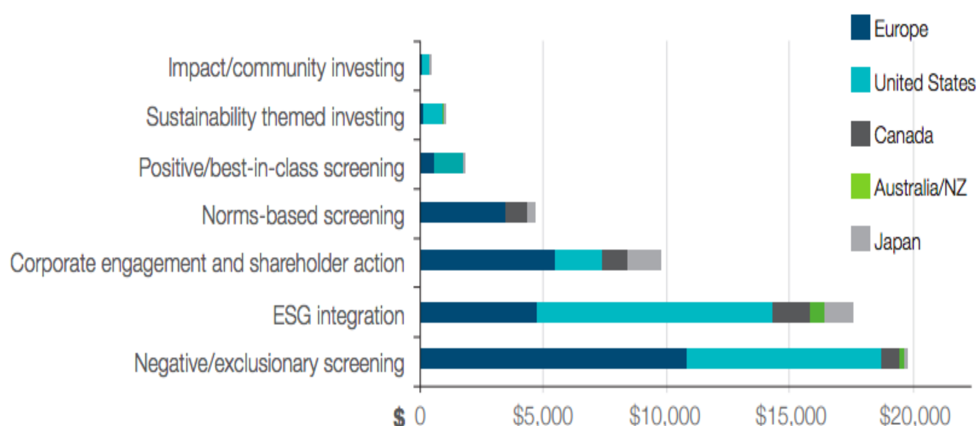
Figure 2. Overview of SRI Strategies in Italy.



Source: Eurosif, European SRI Study 2018, 2018.

From an international and global perspective, the global report published at the end of 2018 by the Global Sustainable Investment Alliance (Gsia) recorded a growth of 34% compared to the previous report on the diffusion of sustainable investments, going from 22.9 trillion in 2016 to over 30 trillion dollars. In particular, Global Sustainable Investment Review (2018) focuses the attention on five main international markets: Europe, U.S., Canada, Japan, Australia and New Zealand. Regarding the main strategies adopted at a global level, negative or exclusionary screening is the one most used in Europe, as shown in the Figure below. This is followed by ESG Integration, which has grown from 2016 to 2018 of over 69% and by Engagement, most used in Japan.

Figure 3. Sustainable investing assets by strategy and region 2018.



Sources: Gsia, 2018 Global Sustainable Investment Review, 2018.

Recent researches have confirmed that companies that care about their stakeholders while monitoring their externalities are benefitting from their commitments. Funds investing in business with high environmental, social and governance (ESG) policies have outperformed their benchmarks this and past years.[61] From a strategic perspective, investing in these companies is becoming more and more profitable. Recent studies[62] have highlighted that companies that outperformed during this period of pandemic crisis, due to COVID-19, have demonstrated superior product, safety, health and workforce policies. Only those companies who have a deep and original interest in stakeholders' needs and necessities, will emerge stronger from this crisis that is affecting our days. These data may increase the perception that shareholders should have on sustainable investments. Not only, investors could find themselves in a company that will dominate the market after COVID-19 crisis, but also as owners of a company that has achieved its own success working closely with societies for a better future.

The next chapter aims to explain how Corporate Social Responsibility practices may be quantitively measured in a firm and in a society, specifically focusing on the ESG Score.

[61] *See* MSCI Europe, Emerging and USA equity indices vs corresponding same regions MSCI ESG Leaders indices year-to-date, 1 year, 2 years, 3 years, 5 years as of 05/05/2020.
[62] Research by Bank of America Merrill Lynch (BofAML) from 19/02/2020 to 20/03/2020.

III. ESG RATINGS

Starting from the definition of Socially Responsible Investing seen in the previous chapter, there is a clear and decisive importance of ESG criteria in the new growing ethical finance. This chapter emphasizes the importance of ESG ratings, how investors experience it, the related problems and the main rating agencies.

1. Declination of the Paradigm ESG

In the financial markets, ESG information providers often disagree (Gray, 2010). Indeed, there are several studies that are trying to establish if the ESG paradigm is measured correctly, and if above all, it can be considered reliable of its kind (Delmas et al., 2013). More often rating agencies are trying to clarify this concept, providing maps of the ESG ecosystem or reports in which they discuss why there are these great difficulties in the quantitively evaluation of the theoretical concept (BrownFlynn, 2018). It seems obvious that there are numerous problems mainly due to technical delineations, such as the diversity of the reference environment, the sector and the classification of the different types of investments.

According to the urgency of the topic and the geographical focus, the rating agencies collect ESG information necessary for a periodic evaluation- generally annually- through interviews addressed to the managers of the company and internal stakeholders. The data is then used in different ways to create a distinct range of indicators, which agencies then share in the market. Major financial data providers, such as Bloomberg and Thomson Reuters become distribution channels for financial performance rankings, expanding their service offerings by focusing on non-financial information such as ESG ratings.

The main problem is the absence of a common definition of the concept of sustainability, as well as the excessive availability of ESG data that creates disorder and concerns about the validity of these ratings. As there are still no real standards on ESG information, the exponential increase of agencies trying to outline a universal concept and parameters is not unexpected. Previous studies have shown that rating agencies actively differentiate themselves focusing on particular dimensions of the ESG paradigm in order to establish their own identity in the market. (Boulash et al., 2013). Other studies on social evaluations have shown how companies vary their responses to same assessment systems, depending on the diversity of their external and internal environments (Delmas & Toffel, 2008, Philippe & Durand, 2011).

This has led to a logical conclusion, as highlighted in studies carried out by Delmas & Toffel (2008), emphasizing that companies in the same sector, in the same geographical region, provide similar responses as they face common external challenges. In this perspective, both the external environment and the internal organizational process influence how a company responds to the market. The construction and development of a company is not based on a mere internal organization, but on how it can interact with external factors. (Ingram & Silverman, 2002). The concept of Corporate Social Responsibility may be interpreted as how information providers perceive and contextualize the ESG paradigm, creating an emulsion of data to inform interested stakeholders.[63] Disclosure of a mission or vision in this perspective will facilitate the definition of dimensions used to measure ESG factors and specific indicators to identify the risks that the company is carrying on.

As previously anticipated, ESG Scores have become fundamental elements in today's finance. Whereas investors focus primarily on what can be perceived, companies should base their investments to create a certain materiality that can be appreciated by investors and that would influence their decision-making process (Serafeim, 2015).

The concept of CSR- although confusing- could be framed as a combination of three main components which are: Environmental, Social and Governance (Hansmann et al., 2012). These components are exactly what the ESG acronym stands for, thus identifying a possible measurement tool for a concept that still seems so abstract. What is clear today about the term ESG is that within each dimension that composes it, there is a broad list of related issues. Published by the Forum of Sustainable Finance (2010) and ANASF (Associazione Nazionale Promotori Finanziari), the table below shows the main attributes that the Italian association identified years ago and that are still relevant today. The table has been translated in English and a fourth section has been removed, since the original one focused on an old paradigm ESG-E that took in consideration also the ethical sphere (-E).

[63] Terms such as CSR, ESG and sustainability have been used as synonyms in the past, describing the voluntary actions of a company in managing the environmental and social impact in the surrounding environment.
See Kahn et al. (2016).

Table 2. ESG attributes

Environmental	Social	Governance
• Air (Climate Change) • Water • Soil • Biodiversity • Natural Resources • Energy • Waste	• Human Rights • Human Capital Development • Attraction of talents • Equality in opportunities and diversity • Safety and Health • Sustainable Supply Chain • Involvement and relations with the community • Socio-economic development • Philanthropy	• Independence • Remuneration • Compliance • Corruption • Shareholders' Rights • Risk management

Source: Forum of Sustainable Finance (2010) and ANASF. Manuale per promotori finanziari e addetti alla vendita di prodotti finanziari- la finanza sostenibile a l'investimento responsabile, Milan, 2010.

As it has been analyzed by Euronif, in recent years the interest in ethical finance has grown exponentially in the market. Investors have begun more interested in socially responsible companies, indirectly increasing their performance both economically and morally. Furthermore, some investors are willing to pay a premium- a moral fee- for including ESG criteria in their portfolio decisions (Landi, 2020).

In the past years, the Corporate Social Performance (CSP) has been considered as a synonym of CSR (McWilliam et al., 2006), even though, for many years Wood (1991), stressed the concept that CSP should have been considered as an application of the Corporate Social Responsibility's principles. Caroll & Shabana (2010) have a similar vision, defining the CSP as an "umbrella" that encompasses both descriptive and normative aspects of CSR.

In order to understand the empirical model that will be analyzed in the following chapters, it is necessary to clearly distinguish these two concepts.[64] Wood defines CSP as “a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.” (1991, p. 693). Many authors have identified Wood's definition as one of the most complete and detailed and for this reason, it has been used in many studies.[65]

The main problem- which we also want to solve- is that there isn’t a general theory that describes the relationship between CSP- or alternatively CSR- and the financial performance of a company (Wood, 2010). Although some ancient theories are considered as promoters of this concept - such as the stakeholders’ theory - it has not been possible to identify a universal theory yet. Indeed, numerous studies had been conducted, leading to mere conflicting results- due to several variables and differences in the surrounding environment (McWilliams & Siegel, 2001). Albeit with minority recognition- in addition to the Theory of Stakeholders – also the Reduced-based-view (Barney, 1991) tries to explain the relationship between CSP and financial performance. In this theory, the sustainable competitive advantage is not obtained by maximizing the efficiency of relations with stakeholders, but by maximizing the competitive tangible and intangible resources of the business.

In recent years, difficulties related to CSP have not been limited to the sole definition of the concept, but also on how this could be measured (Waddock &Graves, 1997). Ulmann (1985) has identified three dimensions for the Corporate Social Performance evaluation and they are: “Social Performance, Social Disclosure and Economic Performance” (1985, p. 542). In Orlitzky et al. (2003) “the construct of CSP is associated with the following four broad measurement strategies: (a) CSP disclosures; (b) CSP reputation ratings; (c) social audits, CSP processes, and observable outcomes; and (d) managerial CSP principles and values.” (2003, p. 408). Additionally, Wood (2010) has conducted a wide revaluation of CSP’s measurements, concluding that one of the most effective is the rating KLD[66] , as well as Dow Jones, FTSE4Good and Domini 400. Being named on one these lists is becoming the main objective of modern companies, as it is an indicator of prestige and high sustainable activities. The next paragraphs analyze the main agencies that evaluate sustainability indices, such as ESG Score.

[64] CSP studies and analysis rely on different types of measurements, while our analysis focuses on CSR measured by the ESG Score.
[65] *See e.g.*, Ortlizky et al. (2003).
[66] Kinder, Lydenberg and Domini Company Inc. Born in 1988, they included all American companies in the Standard and Poor 500. Over time, the company increased “positive screening” practices on virtuous organizations expanding their database.

2. ESG Rating Agencies

Agencies that provide ESG information and sustainability assessments have been created to satisfy a need in financial markets. The new sustainable investors required reliable sources to be able to determine and develop an adequate and sustainable portfolio (Coulmort et al., 2015). As previously anticipated, these agencies differentiate themselves in the market by focusing their analysis on specific attributes: some agencies base their research considering only non-financial features, others use only financial ones and others a combination of the two (Scalet & Kelly, 2010). The development of the ESG sector is due to the combination of two main factors: financial and market power. Indeed, the efforts made by large listed companies confirm the existence of an increase in interest on these sensitive issues (Rivera et al., 2017). Some authors- including Mackenzie et al. (2013)- strongly believe that ESG-type investments send positive signals to stakeholders, encouraging both the company and investors to believe in their actions. These agencies could positively influence sustainable initiatives and investments made by companies, reaching the 17 Sustainable Development Goals in a short future. Generally, they follow a common path in evaluating companies focusing on topics as: macro activities (Environment, Social, Governance); businesses' controversy activities and reference sectors. Additionally, some common problems may arise, such as lack of transparency- agencies do not disclose all methodologies and process of evaluation- commensurability- different agencies may measure the same concept on different ways and this may lead to incompatibility and different results- trade-offs between criteria- some methodologies may provide very high valuations for some criteria and very low for others- absence of an overall score- many agencies provide single scores for each attribute and not a complete one, leaving a slice of analysis uncovered- and stakeholders' preferences[67] (Landi,2020). These shortcomings should incentivize investors to be more careful with the data they are provided (Busch et al., 2016) and always have a double-thinking before making a very important investment decision.

The next paragraphs analyze the main ESG rating agencies, their main characteristics, methodologies and pitfalls.

[67] *See* Chatterji et al., (2006) for more on advantages and disadvantages of ESG rating agencies.

2.1 Vigeo EIRIS

Vigeo EIRIS (V. E.)[68] is a global pioneer of ESG analysis. The company's mission perfectly summarizes the primary points of our analysis. V. E., a Moddy's affiliate, is a global provider of environmental, social and governance solutions serving the investor and issuer communities. It is an agency with the mission "to equip market participants with the ESG insight they need to manage risks and better address their social and environmental impact" [69] and a vision "to catalyze the global shift to a sustainable and responsible financial system." [70] V.E. is considered as a key stakeholder and driving force in the development of ESG awareness amongst public societies, public authorities, and in adapting it to company and investor strategies. The company provides several solutions such as ESG assessments for corporate, sovereigns, SMEs, as well as Second Party Opinions for sustainable bonds and loans. It provides ESG data on sustainability issues, ranging from climate change to diversity and dedicated data teams to support the index development. Additionally, they prepare Leadership papers and regular webinars in the key sustainability challenges of today.

2.2 MSCI ESG Research

KLD Research & Analytics, Inc- previously known as Kinder, Lyndenberg, Domini &Co- founded in 1988, has been one of the most important rating agencies. Born with the aim of removing barriers for Socially Responsible Investing, nowadays it is considered as one of the main providers of ESG information. In 2009 KLD was acquired by RiskMetrics - a risk management company founded by the multinational J.P. Morgan in 1994. In 2010, the agency was incorporated by MSCI (Morgan Stanley Capital International) and became a pioneer of stock indices on the market. In the same year MSCI ESG Research was launched as part of the MSCI group, following the acquisition- in addition to KLD- of Center for Financial Research and Analysis (CFRA), Innovest Strategic Value Advisors, Inc. and Institutional Shareholder Services (ISS). Nowadays, MSCI provides many ESG focus indexes such as EAFE ESG focus, EM (EMERGING MARKETS) ESG focus, USA ESG focus, WORLD ESG focus, ACWI ESG focus and CANADA ESG focus.

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[68] The historical development of the company is twofold: from one side, it is characterized by the development of ERIS and for the other side by the one of Vigeo. In 1983, EIRIS was created, while Vigeo in 2002 by Nicole Notat, and the two companies merged in 2015.
[69] *See* Vigeo EIRIS website*:* https://vigeo-eiris.com/about-us/vision-mission/
[70] *Ibid.*

"The MSCI ESG Focus Indexes are designed to target companies with positive environmental, social and governance (ESG) characteristics while closely representing the risk and return profile of the underlying market."[71] Each index is sector-diversified and designed to over-weight companies with high ratings and under-weight companies with low ratings. The agency is listed in the NYSE and counts 2600 employees. MSCI ESG Research provides ratings to more than 6.000 companies and more than 40.000 private investors.[72]

2.3 Morningstar

Morningstar is a US listed company, founded in Chicago in 1984 by the banker Joe Mansueto, with the aim of creating research services for private investors. He believed that it was not impartial that people didn't have access to the same information as financial professionals. Reason for which, he hired few experts and set a deliver investment research for everyone. The company had no certainty about the future, but they knew that the strong commitment to their mission- "to empower investor success"-wouldn't change. [73] Today, the company has empowered investors from all over the world, it counts more than 5.000 employees in 27 different countries. They build products and offer services that connect people to the investing information and tools they need. The company provides financial data of all kinds, including publicly traded companies, private capital markets and other market data. Since 2016, the company has also provided the Morningstar Sustainability Rating (MSR) and offered financial management advice. The company leverages data from Sustainalytics - in which it owns 40% of shares.[74]

2.4 ISS-Oakom

Oakom was founded in 1993 in Munich with the aim of developing environmental assessments. In the early years, the clients' network included NGOs, ecclesiastical institutes, international organizations and consulting firms; while, in recent years it has expanded to customers such as private investors and companies. Today, Oakom's ratings cover more than 4.00 companies in 57 different countries.[75]

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[71] *See* MSCI website: https://www.msci.com/msci-esg-focus-indexes
[72] *Ibid.*
[73] *See* Morningstar website: https://www.morningstar.com/it-it/company
[74] *Ibid.*
[75] *See* https://www.sustainable-investment.org/Ratings/Researchkonzepte/oekom-research-AG.aspx?lang=en-GB

On March 15 of 2018, the agency was acquired by Institutional Shareholder Services Inc. (ISS)- founded in 1985 in the United Kingdom to promote good corporate governance and greater interaction with investors - becoming the renowned ISS-Oakom. The mission of this new agency is "to develop and integrate responsible investing policies and practices into a strategy and execute upon these policies though end-to-end voting."[76] Applying responsible investment strategies for the agency may be summarized in a single world: DRIVE. Develop responsible investing policies; Report on ESG approaches to clients and stakeholders, Integrate ESG in investment decisions, Vote in shareholder meetings and Engage with companies on ESG issues. Why ISS ESG is different? "ISS ESG brings globally recognized expertise across the full range of sustainable and responsible investment issues, including climate change, SDG-linked impact, human rights, labor standards, corruption, controversial weapons and many more." [77] The agency provides innovative and high-tech quality ESG ratings, screenings, analytics, data and advisory services. Additionally, it promotes direct access to ISS experts, analysts and advisors. These are just few of the characteristics that have allowed the agency to dominate part of the market.

2.5 Standard Ethics

"Standard Ethics is a self-regulated sustainability rating company that provides a comparable and standardized rating system, based in London."[78] It is renewed for having introduced in 2001 a standardized and universal approach to sustainability ratings, both from a methodological perspective and a business model one. The latter is based on the Standard Ethics Business Model- an Applicant-pay model. "The company charges applicants a fee for providing a rating opinion." (Standard Ethics Ratings, 2020). This method may lead to conflicts of interests and lack of transparency. On the other side, the commonly used Investor-pay Model- in which investors pay agencies to receive a list of specific investable companies- may restrain the circulation of information to smaller companies and smaller investors. Most of the information comes from reports, financial analysis and analyst studies. From a technical point of view, in order to formulate their opinion on Sustainability risk, analysts may use two different models: Analyst-driven model and Questionnaire-driven model. The former relies on professionals' initiatives, while the latter on companies' self-practices, as reports and questionnaires.

[76] *See* ISS website: https://www.issgovernance.com/esg/
[77] *Ibid.*
[78] *See* Standard Ethics website: https://standardethicsrating.eu/

Furthermore, from a methodological perspective, the company differentiated the Corporate Social Responsibility from Sustainability, indeed, the agency aims to promote both corporate governance and sustainability standards principles by issuing the SER (Standard Ethics Rating): an evaluation based on the compliance of companies over principles indicated by UN, OECD and EU. Why is SER so important? The methodological approach of Standard Ethics is what really counts. Its ratings are based on a scale comprising of 9 letter grades and it is useful for assessing the relative risk and compliance with the ESG paradigm (EE- or above means good compliance):

- "EEE, full compliance.
- EEE-, Extremely strong compliance with the values expressed by the UN, OECD and EU. And strong ability to manage risks.
- EE+, Vary strong compliance and ability to manage reputational risks linked to UN, OECD, and EU agenda on Sustainability.
- EE, Strong compliance and ability to manage reputational risks linked to UN, OECD, and EU agenda on Sustainability, but somewhat susceptible to changes in circumstances.
- EE-, Adequate compliance and ability to manage reputational risks linked to UN, OECD, and EU agenda on Sustainability, but more subject to changes in circumstances.
- E+, Low compliance and ability to manage reputational risks linked to UN, OECD and EU agenda on Sustainability, but with margins of improvement to get into the "compliance zone".
- E, Low compliance and ability to manage reputational risks linked to UN, OECD and EU agenda on Sustainability.
- E-, Very Low compliance and ability to manage reputational risks linked to UN, OECD and EU agenda on Sustainability.
- F, considered the lowest level of compliance and to manage reputational risks linked to UN, OECD and EU agenda on Sustainability." (Standard Ethics, 2020)

Companies that do not comply at all with the principles of UN, OECD and EU or that do not disclose enough information, do not receive ratings and are included among the "pending" issuers. This method is one of the most used when it comes to evaluating CSR and ESG. It is a very standardized approach mainly based on public organizations' principles, leaving uncovered some specific stakeholders' interests.

2.6 ASSET4

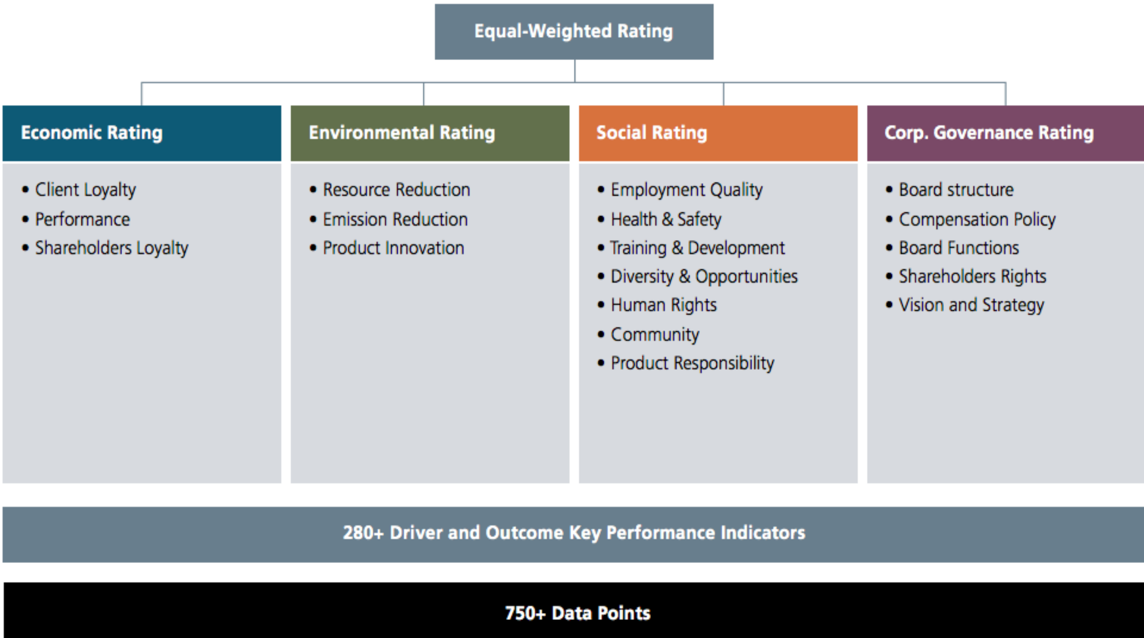
Asset4 was founded to become one of the leading providers of objective, comparable and verifiable non-financial information, recognizing the great need for reliable and transparent data on the ESG paradigm. This agency- besides United Nations' practices- is involved in activities such as Eurosif, UK Sustainable Investment and Finance Association (UKSIF) and US Sustainable Investment and Financial Association (USSIF).[79] In 2009, ASSET4 was incorporated by Thomson Reuters[80], providing even higher service performances. The collection of information is based primarily on company websites, reports, archives and global news publicly located, while the main financial analysis is provided by Thomson Reuters- with an average of 10,000 data per day. The agency undertakes to provide standardized information to allow individual investors and companies to evaluate the ESG traditional components such as Environment, Social and Governance ones, leading to a direct comparison between different business on the market. Furthermore, by providing a common and transparent platform, ASSET4 greatly encourages sustainable practices of numerous companies, underlining the importance of a high ESG Score for positive performance in the market.

ASSET4's current valuation perimeter covers over 2,500 companies including the MSCI WORLD, MSCI Europe, S&P 500, and FTSE 350 index. For each company, the agency identifies 900 different items, analyzed by 250 different indicators- organized in four main categories: Ecological, Environmental, Social and Corporate Governance. Searching for data is very simple; the main research platform is Refinitiv[81]. It provides ESG Score- besides ASSET4 ones – that are "designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes-emissions, environmental product innovation and so on- based on publicly reported data." (Thomson Reuters Eikon, 2018). Refinitiv provides also other types of information and tools (Eikon and DataStream)[82], moving from the financial sphere (Return on Assets, Return on Investments, number of shares), to the internal organization of a company (number of employees and CSR committees). [83]

[79] UKSIF- respectively USSIF in US- is a membership of organization in the finance industry committed to growing sustainable and responsible finance in UK (- US).
[80] Thomson Reuters "provides the intelligence, technology and human expertise you need to find trusted answers". It provides trusted data and information to professionals across three main different industries: legal, tax and accounting and, lastly news and media. *See* for further details: https://www.thomsonreuters.com/en.html
[81] Refinitiv is a global provider of financial and non-financial data. Thomson Reuters own 45% of the stake.
[82] They are a set of software products provided by Refinitiv, providing data in real time.
[83] *See:* https://www.refinitiv.com/en/financial-data/company-data/esg-data for all information about ASSET4, Thomson Reuters and Refinitiv.

Generally, professional investors in Thomson Reuters use the "assetmasterProfessional" model, while managers use the "assetmasterExecutive" solution. These are just two practical and technical formats to gain specific information in order to improve the performance of investors' portfolio on the one hand, and the performance of the company on the other hand. However, the company understands that investors may wish to gain data from different perspectives. Indeed, they have created an individualized capability table shown in the Figure below. In this way, investors are able to create their own structure, with their own pillars and personal relevant factors to take in consideration during their decision-making process.

Figure 4. The ASSET4 Default Data Structure.



Source: Thomson Reuters (2011): "ASSET4 assetmasterProfessional Reference Guide".

As previously stated, ESG rating agencies are key elements in providing guidance to investors and distinguish bad from good actions. These are just some of the main agencies that exist and others, such as GES International and RobecoSAM are advancing in the market.

Now that the main problem has been identified, now that the importance of the ESG score- as well as its relationship with the financial world- has been exposed, now that the main sources of information have been analyzed, it is time to jump in the heart of our research and to understand if, indeed, the good behavior of companies benefits the actual shareholders, increasing the financial performance of the firm. "The financial performance is the achievement of the company's financial performance for a certain period covering the collection and the allocation of finance measured by capital adequacy, liquidity, solvency, efficiency, leverage

and profitability. It is the ability of the firm to manage and control its own resources". (Fatihudin & Mochklas, 2018). Financial performance can be measured in numerous ways, for this reason there is not an explicit chapter on this topic, but only an analysis of how CFP is calculated in our model.

The next chapter analyzes the empirical model; starting from an overview of past studies on the subject, it moves to the analysis of the variables and the model itself, deducing the appropriate conclusions.

IV. RELATION BETWEEN CSR AND CFP: AN EMPIRICAL ANALYSIS

This final chapter describes the model and estimation methodology, as aim the one to explain how Corporate Social Responsibility- measured by the ESG Score- is actually related to the financial performance of the company.

1. Literature Review

Starting from the second half of the XX century, many authors have been interested in the relationship between CSR and the financial performance of a company, reaching however opposing results. As Arlow and Gannon (1982) concluded back then, half of the studies find a positive relation, while the other half a negative one. Starting from the latter, we find authors such as Gray and Milne (2002) and Palmer et al. (1995). In their analyzes, they have shown that investing in CSR leads to a decrease in financial performance and profits, which is not allowed by the Friedman stakeholders' theory. On the other side, authors as Burrit et al. (2002), believe that even though sustainable practices lead to higher costs for the firm, the benefits generated in the medium-long term horizon pay off these expenses, leading to a more prosperous future. For McWilliams et al. (2006), benefits come from a higher reputation, which has a positive effect on the economic value of the company as it increases the commitment of stakeholders, partners and employees. Other authors as Eccles & Serafeim (2013) and Baron (2008) belong to this hemisphere of studies as well, emphasizing the importance of innovation, sustainable strategies and good management practices, as determinants in reaching and obtaining a higher financial performance and a higher value of the business perceived by the external and internal stakeholders.

The relationship between CSR and Corporate Financial Performance (CFP) has been one of the most contested issues in the academic world. The cause could be attributed to a lack of clarity on the CSR concept itself, as well as studies based always on different companies, different variables, different sectors and geographic locations. For this reason, Friede et al. (2015) developed a meta-analysis on a sample of more than 2000 past empirical studies on the topic, reaching a conclusion that around 90% of these studies describe a positive correlation between corporate financial performance and Environmental, Social and Governance factors (ESG). Specifically, the authors identified a positive relationship among CFP and the Environmental factor (around 63%). As previously stated, numerous analyzes have been carried out on this topic by changing the method and reaching different results. For this reason, meta-analyzes[84] and review paper are more relevant, in order to actually understand where the current research on this topic is standing. Orlitsky et al. (2003) conducted a meta-analysis, concentrating on management studies and deduced that both social and environmental practices and initiatives pay off in financial performance. A much stronger conclusion is reached by Margolis and Walsh (2003). They concluded that a simple "compilation of the findings suggests there is a positive association, and certainty very little evidence of a negative association, between a company's social performance and its financial performance" (p. 277).

Many studies in the early 1990's relied primarily on CSR aggregate measurements, as the ESG Score. Starting from Waddock & Graves (1997), the two authors based their study on KLD data, constructing a CSR index and studying the effects on the financial performance measured by return-on-assets, return-on-equity and return-on-sales. The authors came at a twofold conclusion: from one side, the quality of corporate social responsibility depends mainly on past financial performances, meaning that, a stronger performance in the past incentives CSR investments in the future ("slack resource view") and, on the other side, how future performance depends on good management ("good management hypothesis").

Furthermore, Hillman & Keim (2001), focus on stakeholder management and on the positive relation over financial performance, basing their sample on S&P 500 firms. Other studies, as Servaes & Tamayo (2013) and McWilliams & Siegel (2000), expanded the horizon of the topic by including advertising and R&D budgets. However, many analyses have not focused only on the CSR aggregate measurement but also on each individual component of ESG Score and how it influences financial performance.

[84] "Examination of data from a number independent studies of the same subject, in order to determine overall trends". Main meta-analysis studies of interest are: Orlitsky et al. (2003), Margolis & Walsh (2003) and McWilliams at al. (2006).

Furthermore, also in in this case, there are numerous conflicting conclusions. For example, regarding the Environmental dimension, Fisher-Vanden and Thorburn (2011) believed that no environmental policy can generate profits, as the benefits and gains are uncertain in the long run. On the other side, Mantabon et al. (2007), believed that there exists a positive correlation between financial and environmental performance.

Precisely from the increase of awareness on this field, summarizing the main studies on the single "E" component is not straightforward. Reason for which, basing our research on *"The Implications of Corporate Social Responsibility for Investors"* of Clark and Viehs (2014), the table below summarizes the main important and relevant studies on this topic.

Table 3. "E" Dimension

Authors	**Relation E-CFP**
Russo & Fouts (1997)	Positive relation among Environmental and CFP (measured as ROA)
Hart & Ahuja (1996)	Using cross-sectional yearly regressions, operating performance improved in the year after reduction of emissions. Highest-polluting firms can benefit more than low-polluting firms (need to invest less to reduce emissions).
McLaughiln (1996)	Increase in returns following positively environmental events. Market values positive environmental news.
Darwall et al. (2005)	Eco-efficient firms deliver higher return than poorly ones. Even after accounting transaction costs, market risk, investment style and industries.
King & Lennox (2002)	Waste prevention causes better financial performance.
Galema, Plantiga & Scholtens(2008)	Using KLD data, corporate environmental performance lowers the book-to-market ratios, implying a lower SRI stocks.
Guenster, Derwall, Beuer & Kodijk (2011)	Examine eco-efficient and CFP between 1997-2004. Better eco-efficiency increases CFP (measured by ROA), and it is persistent over time. Similarly, Tobin's Q is positively correlated by its eco-efficiency.
Konar & Cohen (2011)	Toxic chemicals and environmental lawsuits are significantly and negatively related to Tobin's Q.
Jiao (2010)	Positive correlation between Environmental practices and CFP (measured as Tobin's Q).

Jacobs, Singhal & Subramanian (2010)	Negative market reaction to announcement of voluntary emission reduction participation (pressure by shareholders). Use two categories of environmental performance: Corporate Environmental Initiatives and Environmental Awards and Certifications. Investigate different sub-categories as: environmental business strategies, eco-friendly products and others. For some of these categories they found positive and negative stock value changes, for others none.
Brammer, brooks, Pavelin (2006)	Negative relationship for UK companies. Firms with good CSR practices tend to outperform in the market.
Jayachandran, Kalaignanam & Eilert (2013)	Analysis of 518 firms and 3,701 firm-years, firm's environmental performance does not significantly relate to Tobin's Q.

Source: Made by the author with reference to Clark, G.L. & Viehs, M. (2014): "The Implications of Corporate Social Responsibility for Investors: An Overview and Evaluation of the Existing CSR Literature"

The Table above underlines how studies in this field can be completely different from each other, taking different companies as samples, using different variables and different geographical areas; this does not allow to have a complete picture on the subject, but only fragments. Our aim at this moment is to perceive and understand the underlying concept, in which each author develops his own model and reach a specific conclusion. This means that a universal model that can provide a standard answer has not yet been discovered and developed. Reason for which, as mentioned above, it is essential to rely on meta-analysis to understand where the literature is going and where our future results will be placed. Hence, the meta-analysis of Friede et al. (2015) concludes that "if the share of negative findings is deducted from positive ones, environmental studies offer the most favorable relation (58.6%-4.3%)." This means that among the ESG components, the Environmental one has a higher correlation with the financial performance of the company.

Regarding the Social dimension, Jackson (1995) believed that a good human capital management would have led to unexpected positive correlation with financial performance. On the other side, Molina and Ortega (2003) argued that the human resources expenses would have not recovered by the restrained benefits in the future, leading to further decrease in company's profits. Additionally, Harring (2009) believed that diversity in the board and in the company as a whole, would have benefit the performance of the company. Further, Edams (2011), basing the study on the "100 Best Companies to work for", collecting data from 1994 to 2011, came to the conclusion that these companies received and abnormal higher return, emphasizing the positive relation between the core concepts.

In Brammer and Millington (2008), the authors, basing their research on UK firms, showed how companies that make unexpectedly very high or very low CSR charitable donations, reach a better CFP than the ones that do not. Friede et al. (2015) concluded that the social component is the one with the "weakest relation", even if it counts positive correlations for most of the studies (55.1%- 5.1%). Works concerning the relationship between Social and financial performance are not yet well developed, if compared with studies concerning the dimensions "E" and "G", and therefore many areas still need to be explored.

Furthermore, assessing the Governance component, Yermark (1995) believed that an increase in board's members would have decrease the company's performance, due to the absence of practicality, organization, effectiveness and communication. The author concluded that a small board of directors, would have led to higher efficiency, profits and performance of the business. Some other studies focus on external governance mechanism as market for corporate control (Gompers et al., 2003) or the level of industry competition (Giroud and Muller, 2010), or internal mechanisms as board of directors, executive compensations (Core et al., 1999) and ownership structures (Gompers et al., 2010). Friede et al. (2015) analysis registered the Governance component, as the one with higher positive and negative relations (62.3%-9.2%). The studies in the governance dimension led to a very clear analysis with not conflicting results. Indeed, it is apparent how superior quality of corporate governance leads to a better CFP, since it is seen as valuable from shareholders' side.

In general, the main results from the literature indicate how sustainable policies and practices have a positive impact on company's performance, strengthening the reputation as well as the involvement of external parties. As it has emerged in the previous chapters on SRI, investors are willing to receive a smaller gain in the short term, in order to obtain an economic and social gain in the long run. A strong relationship between managers and investors is essential to ensure that, the strategies used by the company, are best understood by investors and by the external market (Chen et al., 2015).

The following paragraphs focus on our analysis and our contribution on the subject.

2. Hypothesis development

The development of our study has as its main purpose the one to investigate, as specified above, on how sustainable practices- reflected in the ESG Score- may positively or negatively influence the financial aspect of the company. This hasty conclusion is anticipated by a specific focus on how the presence of the CSR Sustainable Committee in a company affects the analyzed Score, and how this, subsequently affects financial performance.

Once this general framework has been defined, it is now appropriate to formally lay out the hypothesis that the model will try to explain. Generally speaking, a CSR committee is seen as a subcommittee in the Board of Directors. Even though it can assume different names as ethic committee, sustainable development committee, health and safety committee or public responsibility committee, it has common characteristics, such as the experience on the field of the members, the responsibility of proposing to the Board the accurate strategies and policies, as well as guaranteeing the proper functioning of CSR practices. From a theoretical point of view, the presence of CSR committee represents the connection between the Theory of Stakeholders and the Agency Theory, since it focuses on a principal-agent relationship among shareholders and managers. Reason for which, a positive and significant correlation between the presence of the committee and ESG Score-as represented by a fundamental pillar such as Corporate Governance- should not be surprising. In fact, the continuous increase of interest in good managerial practices and sustainable finance, have prompted our analysis to start from an in-depth study of the internal structure of the company, to then understand if these sacrifices and efforts are really worth it.

Numerous studies in this matter have been carried out in recent years. Indeed, Zahra (1989) proved the positive correlation between CSR committee and Corporate Social Performance, as well as higher level of sustainability reports (Fuente et al., 2017). Other studies showed how the presence of the committee is related to community performance, human rights performance and corporate governance (Mallin et al., 2011). A similar result has been provided by Burke et al. (2019), finding a strong correlation between CSR committee and the analyzed score. Following the lines of Burke et al. (2019) and Flammer (2014), also Baraibar-Diaz et al. (2019) tried to prove a correlation between the committee and the ESG pillars. Basing our analysis on the past literature, the first hypothesis tasted in the model is:

Hypothesis 1 (H1). *CSR Committees are positively associated with ESG Score.*

Furthermore, incentivized by the heated debate on the positive or negative correlation between corporate social responsibility and financial performance in the literature, stimulated by a great desire to understand the Italian situation and to contribute to the conflict; the following five hypotheses will also be tested in our model:

Hypothesis 2 (H2). *Corporate Financial Performance is positively associated with Corporate Social Responsibility.*
Hypothesis 3 (H3). *Corporate Financial Performance is positively associated with Environmental Scores.*
Hypothesis 4 (H4). *Corporate Financial Performance is positively associated with Social Scores.*
Hypothesis 5 (H5). *Corporate Financial Performance is positively associated with Corporate Governance Scores.*

3. Model Specification and estimation methodology

3.1 Sample selection

The dataset of choice for this study has been extracted[85] from the Refinitiv Eikon platform, at Luiss University. Since the database provides information on over 95000 global companies and includes ESG data for more than 7000 companies, it was considered an adequate platform for data collection for the development of this study. Moreover, as mentioned in the previous chapters, our focal point is concentrated on a study of Italian companies. Reason for which, a first filter in the selection of data has been applied, collecting only information for companies listed on the Milan Stock Exchange. Starting from a sample of 407 firms, a further filter has been applied, excluding all those listed companies lacking the ESG Score: reaching a final sample of 112 businesses.

In this first approach to the model emerges the need for a greater commitment to ESG practices on the part of many Italian listed companies. However, this should not be seen as a sign of discouragement, but rather a sign of hope, since as emerges in the summary tables in the next paragraphs, the data referring to the ESG Score increased significantly from 2016 to 2020.

[85] Retrieved 18th February 2021.

Furthermore, the companies of interest have been divided into two main industries: Financials (counting 33 companies) and Utilities & Industrials (counting 79 companies). Moreover, no further division was made between Utilities and Industrials, as nowadays a clear and specific line between the two sectors is difficult to define.

Further, the research employs a panel data construction, characterized by longitudinal data that makes it possible to list, for the group of companies studied, the different values of dependent, independent and control variables repeated over time. It is important to know that the sample counts some missing variables, leading to a possible unbalanced panel data construction and biased results. A possible solution could have been the one to manually remove those observations, however, this would have led to an alteration of the representation of the selected population: reason why, no observations have been removed.

Additionally, it is also important to take into account possible problems regarding omitted variables in the empirical study, as well as reverse causality. Indeed, the following OLS regressions could demonstrate correlation but not the causality that we might expect, since correlation does not mean causation.

To sum up, by applying these filters it is possible to implement our study and analysis in a homogenous and coherent setting, given that all companies have at least one ESG Score valuation in the focused time period. Additionally, by including different sectors, as well as controlling them in the empirical model, it is possible to provide a deeper and explicit understanding of the phenomenon also from an industry's perspective.

3.2 Variables and Empirical Model

This paragraph begins to outline the first features of our model, focusing on dependent, independent and control variables. It is important to underline that according to the empirical regression, different variables are taken into consideration. The purpose it is now the one to define and contextualize the different variables, for a subsequent application to the empirical model. Moreover, it is appropriate to begin by defining the main **independent variables**, understanding some exceptions and then move to the dependent variables of the model.

Numerous studies (Tamimi & Sebastianelli, 2017 and Landi, 2020) use the ESG rating to measure sustainable performance. For this reason, the analysis presented also takes ESG ratings (*ESG_score*) as a reference point for CSR. Depending on the regression analyzed, ESG Score assumes the function of a dependent variable to test H1, while it assumes a function of independent variable in the second hypotheses.

It is important to underline that as regards the hypotheses H3, H4, H5, the Score will be dismembered into its components to have a clearer conclusion. Further, as previously mentioned, the ESG ratings have been obtained from the Refinitiv Eikon platform launched in 2010 by Thomson Reuters, which categorizes the score into four assessment levels, as showed in Table 4.

Table 4. Refinitv Eikon ratings levels.

Score range	**Description**
0 to 25	First quartile: Scores within this range indicates poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly.
>25 to 50	Second Quartile: Scores within this range indicates satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
>50 to 75	Third Quartile: Scores within this range indicates good relative ESG performance and above average degree of transparency in reporting material ESG data publicly.
>75 to 100	Fourth Quartile: Score within this range indicates excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly.

Source: Environmental, Social, and Governance (ESG), 2021.

Related to this Table, further classifications have been made by Refinitiv Eikon; indeed, regarding the first percentile, grades as D-, D and D+ are attributed. Further, regarding the second percentile, grades as C-, C and C+ are attributed, additionally B-, B and B+ to the third percentile and lastly in the fourth percentile, grades as A-, A and A+ can be found. As it may be recognized from the table above, the further down you move, the higher the Score.

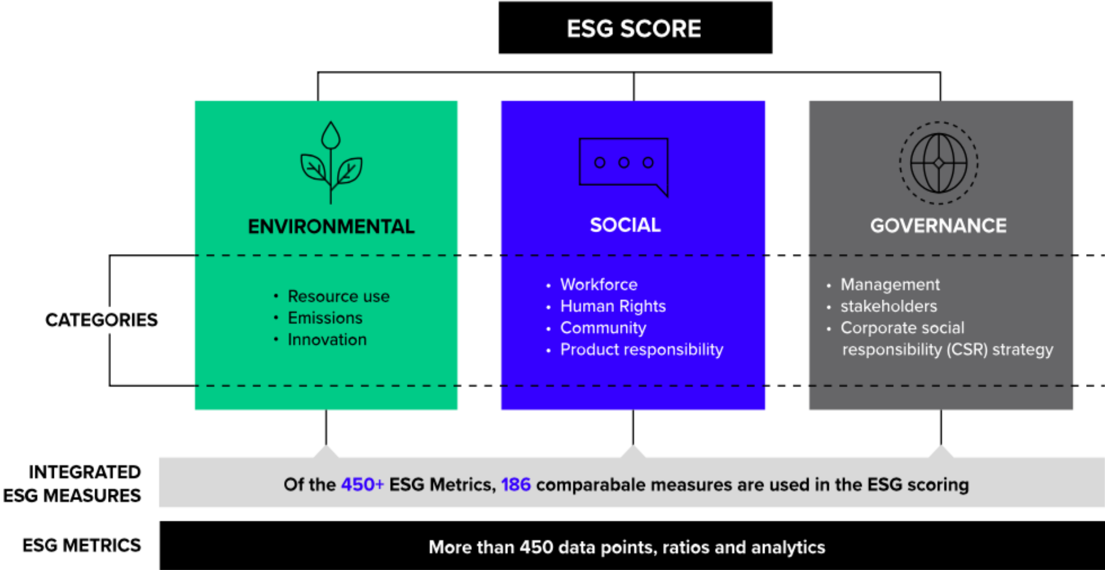
The Refinitiv Eikon's ESG Scores are designed to provide a clear identification of companies' performances, incorporating ten main parameters- very similar to the ones defined in ASSET4.

As previously anticipated, in order to deepen our analysis, the single dimensions "E", "S", "G" have been examined, in order to understand which of these factors have the greatest impact on Corporate Financial Performance. As shown in the Figure below, Refinitiv (2021), provides a clear and distinguishable identification of the three main pillars that compose the ESG score.[86]

[86] Refinitiv's ESG Score is "an overall company score based on the self-reported information in the environmental, social and corporate governance pillars."

Starting from the "E"[87] (*environmemtal_score* in our analysis), moving to the "S"[88] (*social_score*) and "G"[89](*governance_score*), the Figure below identifies the main components of the Scores that we use in our empirical model.

Figure 5. Refinitiv ESG Score.



Source: Environmental, Social, and Governance (ESG), 2021.

To sum up, *ESG_score* assumes a function of dependent variable in Hypothesis 1, while assumes a function of independent variable in Hypothesis 2. Furthermore, *e_score*, *s_score* and *g_score* are independent variables in the respective Hypothesis 3, Hypothesis 4 and Hypothesis 5. Regarding the first hypothesis, another variable should be analyzed. Indeed, it must be taken into consideration the presence of the CSR committee (*CSR_committee*) in a company-identified as a dummy variable: meaning a value of 0 if the company does not have a committee and a value of 1 if it has. Refinitiv identifies a main question to rely on: "Does the company have a CSR committee or team?" and defines the CSR committee as responsible for decision making on CSR strategy.

[87] Refinitiv's Environmental Pillar Score is defined as "the weighted average relative rating of a company based on the reported environmental information and the resulting three environmental category scores".
[88] Refinitiv's Social Pillar Score is defined as "the weighted average relative rating of a company based on the reported social information and the resulting three social category scores".
[89] Refinitiv's Governance Pillar Score is defined as "the weighted average relative rating of a company based on the reported governance information and the resulting three governance category scores".

The **dependent variable** chosen to estimate the Corporate Financial Performance, in accordance with various empirical studies[90], is the Tobin's Q: indicated in our model as *tobinsq*. It is calculated by dividing the market value of a firm by the replacement value of its book equity; formally it is measured as equity market value plus liabilities market value, divided equity book value plus liabilities book value.[91] It describes how the firm's market value appreciates or depreciates with respect to the book value of its assets. A low Tobin's Q, between 0 and 1, means that the cost of replacing firm's assets is higher than the actual value of the (undervalued) stocks. On the other side, if it counts a high value- greater than 1- the cost of replacing the assets of a company is lower than the actual value of the (overvalued) stocks. The Tobin's Q is considered as one of the most common used method to measure a company's valuation (Klapper et al., 2004). Specifically, our model focuses on a log-log regression, since the Tobin's Q and the dimension of the company (*logemployees*) are log-transformed. In this specific model, what the coefficient will tell us is a fixed change in the independent variable (*ESG_score*, *e_score*, *s_score* and *g_score*) generates a specific percentage change in the dependent variable *(l_tobinsq),* keeping all the other variables fixed and constant.

As anticipated, for the five different regressions, a relevant basket of **control variables** has been identified on the basis of previous literature. All these control variables provide a robustness to the model, as well as allow to control some factors that could affect the dependent variables in the model. Basing our analysis on the study of Baraibar-Diez et al. (2019) and Buchanan et al. (2018), the following control variables have been identified.

- Given that the first model analyses the relationship between Corporate Social Responsibility (measured as ESG Scores) and the CSR committee, the control variables employed are:
  - The size of the company: calculated as the natural logarithm of the workers. In Refinitiv, employees "represent the number of both full and part-time employees of the company, including seasonal and emergency ones". (*l_employees*)

[90] *See e.g.,* Buallay (2019). Numerous studies measure the financial performance in terms of Return on Equity (ROE), Return on Assets (ROA) and Price/Earnings Ratio.

[91] (Equity Market Value + Liabilities Market Value)/ (Equity Book Value+ Liabilities Book Value). A simplified formula is just equal to Total Market Value of a Firm / Total Book Value of a Firm or Equity Market Value/ Equity Book Value when the assumption of liabilities of market and book value are equal holds.

- The financial structure of the firm: calculated as the leverage ratio of Total Debt to Total Assets (*leverage*)
- Specific Board and company's internal organizations like: if the CEO compensation is linked to the total shareholders' returns (*compensation*), decisive in understanding the continuous fight between managers and shareholders. It is identified as a dummy variable: 0 if the compensation is not linked to shareholders' returns and 1 if it is. We must answer to the question provided by the Refinitiv's platform: "Is the CEO's compensation linked to total shareholder return (TSR)?".
- Related to the previous point, if the company has an Environment management Training (*training*), decisive of a good ESG managerial practice. Again, it is considered in our model as a dummy variable: 0 if the company does not have the management training on environmental practices, and 1 if it does. We must answer to the question provided by the Refinitiv's platform: "Does the company train its employees on environmental issues?".
- Again, if the CEO and the Chairman positions are separated (*separation*). This may increase or decrease the efficacy of the different managerial practices. The empirical results will provide an answer to this point. Furthermore, also in this case, it is seen as a dummy variable: 0 if the CEO and Chairman positions are not separated and 1 if it is. We must answer to the question provided by the Refinitiv's platform: "Does the CEO simultaneously chair the board or has the chairman of the board been the CEO of the company?".
- Lastly, the diversity of the Board of Directors (*diversity*): measured as the percentage of female on the board.
- The time frame of the analysis: from 2016 to 2020.

All these variables, combined with company and year fixed effects, have been included in this first regression:

$$ESG_score_{c,t} = \beta_0 + \beta_1(CSR_committee)_{c,t} + \beta_2(l_employees)_{c,t} + \beta_3(leverage)_{c,t} + \beta_4(compensation)_{c,t} + \beta_5(training)_{c,t} + \beta_6(separation)_{c,t} + \beta_7(diversity)_{c,t} + \omega_c + \chi_t + \varepsilon_{c,t} \quad (1)$$

Where *c* denotes companies and *t* years. The error term is composed of two fixed components and residual error term. The first term reflects the company fixed effect, while the second the year fixed effect.

- Given that the remaining models analyses the relationship between Corporate Social Responsibility (measured as ESG Scores, and its components) and the Corporate Financial Performance, the control variables employed are:
    - The capital expenditures (*CapExta*) measured as percentage of Total Assets.[92] Capital expenditures include all those expenses for equipment, factories, tangible and intangible assets that have a useful life for more than a year. It helps firms and investors to understand how effectively the company is using its resources, as well as measuring the company's capital intensity.
    - Market Value (*mv*) calculated by multiplying the number of outstanding shared by the current market price. The number of shares on issue is updated whenever "new tranches of stock are issued or after a capital change. For companies with more than one class of equity capital, the market value is expressed according to the individual issue, and market value is displayed in millions of units of local currency" (Refinitiv). It describes how much a specific asset, or a specific company is worth on the financial market.
    - The profitability of a company, measured by the Earnings Before Interest, Taxes, Depreciation, and Amortization formula (*EBITDA*). It is calculated straightforward with information on the company's income statement and balance sheet: Net income plus Interest plus Taxes plus Depreciation plus Amortization.[93] It is useful to compare companies on different industries, it is a good measurement of company's financial performance and of company's profitability. It is a good measurement of company's profits trends, allowing investors to a better "apples to apples" comparison.
    - Common Shareholders Equity (*cse*) calculated as share capital (initial shares sold) and retained earnings (money added to the company's value) minus the company's treasury stock (repurchased shares). It represents the ownership of a company, relevant factor for the continuous fight between shareholders (owners) and managers.

[92] Capital Expenditures/ Last Year's Total Assets *100. Refinitiv differentiate between banks and other financial companies. For the former is calculated as Capital Expenditures/ Last Year's (Total Assets- Customer Liabilities on Acceptances) *100, while for the latter is calculated as Capital Expenditures/ Last Year's (Total Assets- Custody Securities) *100. In our analysis this differentiation is not taken into account, since all companies in the financial sector belong to the first group.

[93] EBITDA= Net Income+ Interest+ Taxes + D+ A.

- From the previous model, control variables as *l_employees*, *leverage* and the time frame are employed.

Additionally, it is important to emphasize that the only difference among the following models are the independent variables, as showed in the regressions below:

$$l_tobinsq_{c,t} = \beta_0 + \beta_1(ESG_score)_{c,t} + \beta_2(l_employees)_{c,t} + \beta_3(leverage)_{c,t} + \beta_4(CapEx)_{c,t} + \beta_5(mv)_{c,t} + \beta_6(EBITDA)_{c,t} + \beta_7(cse)_{c,t} + \omega_c + \chi_t + \varepsilon_{c,t} \quad (2)$$

$$l_tobinsq_{c,t} = \beta_0 + \beta_1(e_score)_{c,t} + \beta_2(l_employees)_{c,t} + \beta_3(leverage)_{c,t} + \beta_4(CapEx)_{c,t} + \beta_5(mv)_{c,t} + \beta_6(EBITDA)_{c,t} + \beta_7(cse)_{c,t} + \omega_c + \chi_t + \varepsilon_{c,t} \quad (3)$$

$$l_tobinsq_{c,t} = \beta_0 + \beta_1(s_score)_{c,t} + \beta_2(l_employees)_{c,t} + \beta_3(leverage)_{c,t} + \beta_4(CapEx)_{c,t} + \beta_5(mv)_{c,t} + \beta_6(EBITDA)_{c,t} + \beta_7(cse)_{c,t} + \omega_c + \chi_t + \varepsilon_{c,t} \quad (4)$$

$$l_tobinsq_{c,t} = \beta_0 + \beta_1(g_score)_{c,t} + \beta_2(l_employees)_{c,t} + \beta_3(leverage)_{c,t} + \beta_4(CapEx)_{c,t} + \beta_5(mv)_{c,t} + \beta_6(EBITDA)_{c,t} + \beta_7(cse)_{c,t} + \omega_c + \chi_t + \varepsilon_{c,t} \quad (5)$$

Where *c* denotes companies and *t* years. The error term is composed of two fixed components and residual error term. The first term reflects the company fixed effect, while the second the year fixed effect.

Once our variables and regressions have been defined, it is the appropriate moment to dig deeper into the empirical model itself. As previously anticipated, the analysis has been constructed on a two-dimensional panel model, allowing to run a regression among data collected over time (longitudinal dimension) and on different firms (cross-sectional dimension). As the previous part of the paragraph emphasizes, the study starts with a linear regression relating the ESG Score and the presence of CSR committees; then, it moves to a log-log linear regression focused on the relation between Corporate Financial Performance and ESG Score, concluding with three different log-log linear regressions on each pillar of the Score: starting with the Environmental score, moving to the Social and concluding to the Governance one, in order to understand the impact of each pillar on the Tobin's Q. As previously anticipated, all the regressions are carried considering the company and year fixed effects.

In these paragraphs, the theoretical model has been defined, retracing and summarizing the logical path. The next paragraph will give empirical answers to the questions we have raised so far.

4. Results

This paragraph is divided into two main parts: the first part relies on the descriptive statistics of the variables involved in the models; instead, the second part relies on the empirical results of all previous equations (1)-(5).

4.1 Descriptive Statistics

In general, summary tables provide an idea on how the data of the sample is distributed, reason for which, it is analyzed before the actual empirical results. The following table provides the descriptive statistics of the variables involved in equation (1):

Table 5. Summary statistics for first model.

Variable	Observations	Mean	Std. Dev.	Min	Max
ESG_score	330	57.32112	19.90855	5.89	93.41
CSR_committe	330	.6878788	.4640627	0	1
l_employees	437	8.320159	1.811402	2.397895	12.63668
leverage	438	27.21128	15.53379	.03	66.13
compensation	330	.2787879	.4490839	0	1
training	330	.7181818	.4505684	0	1
separation	330	.2454545	.4310099	0	1
diversity	328	34.73384	7.584468	0	55.56

The summary table emphasizes some interesting parameters that may be related to the variables under analysis. It offers a snapshot on the distribution of the main variables for the companies in the dataset. Several variables as *CSR_committe*, *separation, training* and *compensation* account a minimum of zero and a maximum of one, this is not a problem since they are dummy variables. Regarding *diversity,* the variable account a minimum of zero, since some companies may have zero diversity, in other words they have only men in the board of directors.

The next table moves to the second model, providing a descriptive statistical analysis of the variables involved in equations (2)-(5).

Table 6. Summary statistics of the second model.

Variable	Observations	Mean	Std. Dev.	Min	Max
l_tobinsq	445	.3031572	.4578785	-.4803408	2.02498
ESG_score	330	57.32112	19.90855	5.89	93.41
e_score	330	52.5693	28.1048	0	98.87
s_score	330	63.80939	21.2479	8.97	96.39
g_score	330	50.272	22.41637	5.08	94.22
l_employees	437	8.320159	1.811402	2.397895	12.63668
leverage	438	27.21128	15.53379	.03	66.13
CapEx	407	3.094717	3.119553	0	17.53
mv	517	4802.364	9124.606	.42	80875.88
EBITDA	440	1190233	3022974	-7267828	1.82e+07
cse	463	4484191	9693465	-167620	5.95e+07

The second model accounts for more financial measurements, as we analyzed in the previous paragraph, differentiating the final results, as well as the means, the maximum and minimum levels and the overall number of observations. An important analysis should be done on the main independent variables (*ESG_score, e_score, s_score, g_score)*. Indeed, the next tables provide a further and deeper study on the topic.

Table 7. Summary statistics "E" pillar.

Variable	Missing observations	Mean	Std. Dev.	Min	Max
e_score 2016	60	52.47038	31.42837	0	97.77
e_score 2017	49	54.94381	29.60459	0	98.17
e_score 2018	6	48.83057	27.73855	0	98.73
e_score 2019	4	54.3563	25.82202	0	98.87
e_score 2020	109	72.73667	6.645302	0	80.41

Table 8. Summary Statistics "S" Score.

Variable	Missing observations	Mean	Std. Dev.	Min	Max
s_score 2016	60	61.98192	23.37104	8.97	95.92
s_score 2017	49	63.40397	20.60097	11.46	94.35
s_score 2018	6	62.405	21.26539	11.51	95.08
s_score 2019	4	66.10435	20.70407	11.24	96.39
s_score 2020	109	65.98667	8.845006	60.88	76.2

Table 9. Summary Statistics "G" Score.

Variable	Missing observations	Mean	Std. Dev.	Min	Max
g_score 2016	60	48.5275	13.34	84. 72	95.92
g_score 2017	49	50.48635	6.06	92.89	94.35
g_score 2018	6	50.37472	6.63	94.22	95.08
g_score 2019	4	50.99185	5.08	92.92	96.39
g_score 2020	109	25.52333	24.27	28.03	76.2

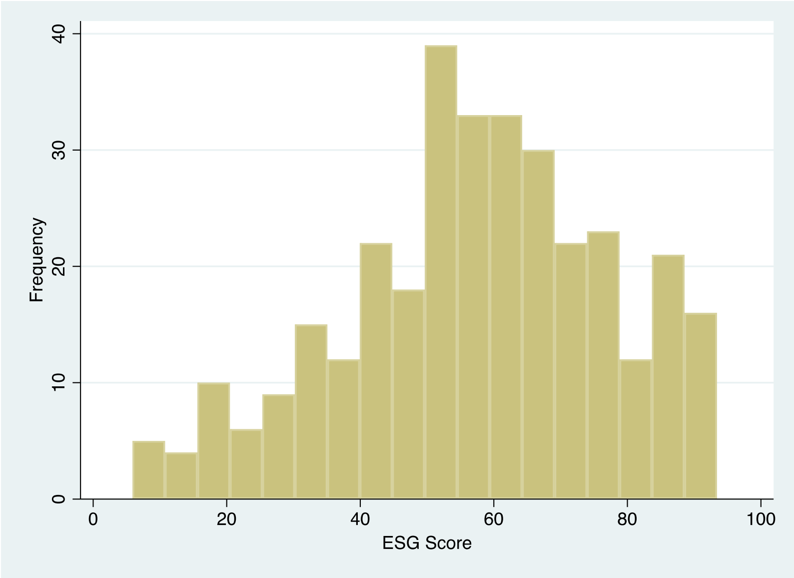
These tables, as well as the following one, show how in recent years companies have become more inclined to more sustainable managerial practices. Specifically, in the Environmental score, a peak of 98.87 is reached, as well as an exponential increase in observations from 2016 to 2018. The final outcome seems in line with what has been observed in the literature and CSR development. Starting from 2016, companies are becoming aware of their importance and impact on the society and external environment, and they are starting to implement more the ESG practices for a better future. Moreover, a specific analysis on the ESG Score path over time is essential, reason for which, it is inspected in Table 10.

Table 10. Summary Statistics "ESG" Score.

Variables	Missing observations	Mean	Std. Dev.	Min	Max
ESG_score 2016	60	56.21135	22.01081	16.1	88.63
ESG_score 2017	49	57.86587	20.10462	9.27	92.8
ESG_score 2018	6	55.75745	19.83041	8.37	91.92
ESG_score 2019	4	58.83046	19.12078	5.89	93.41
ESG_score 2020	109	56.50667	5.744635	53.19	63.14

Again, an exponential growth in observations has been registered between 2016 to 2018, reaching a peak of 93.41 and a mean of 58.83. The following figure provides a representation of the distribution of this variable:

Figure 6. ESG distribution



Source: Stata analysis

This bar graph captures the average ESG score distribution per firm during the period analyzed. The x-axis indicated the ESG Score range in brackets, while the y-axis the frequency. It is noticeable that the scores between 50 and 70 are the most frequent ones, as also the mean in Table 10 confirms. For each year, the maximum level (88.63, 92.8, 91.92, 93.41,63.14) and minimum level (16.1, 9.27, 8.37, 5.89, 53.19) are very far from the relative mean (56.2, 57.86, 55.75, 58.83, 56.50), meaning that the score varies substantially between the companies in the data set. Same reasoning can be applied for the Environmental, Social and Governance scores.

Another important consideration to make, is for sure, the effect on the last year with the Covid-19 pandemic. Besides the lower observations- meaning that fewer companies had the chance to disclose enough information for a proper evaluation of the relative scores from the rating agencies- a lower maximum level and mean has been registered in the overall scores, as well as the single pillars. Probably, one of the main reasons is that in this period of crisis many companies have had to concentrate on survival strategies, rather than sustainable practices. This should not be considered as a failure of literature and of our study, but only a reason to encourage more sustainable practices in Italy and in the world.

The next paragraphs analyze in detail the empirical results of our models.

4.2. Correlations

At this point of the study, before proceeding to describe the regressions, it is essential to understand the possible correlations among the different variables. Reason for which, Table 11 and 12 provide an overall picture on this topic.

Table 11. Correlation Coefficients Matrix (First Model)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ESG_score (1)	1							
CSR_committe (2)	0.6348	1						
l_employees (3)	0.4968	0.2952	1					
Leverage (4)	0.1096	0.1198	0.0815	1				
Compensation (5)	0.4618	0.2251	0.3438	0.0740	1			
training (6)	0.5510	0.5228	0.3375	0.0342	0.0714	1		
Separation (7)	-0.2101	-0.1514	-0.1164	-0.0923	-0.0228	-0.0774	1	
Diversity (8)	0.2390	0.1582	0.0872	0.0455	0.1364	0.1294	-0.020	1

Table 12. Correlation Coefficients Matrix (Second Model)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
l_tobinsq (1)	1										
ESG_score (2)	-0.1264	1									
e_score (3)	-0.1680	0.8743	1								
s_score(4)	-0.1440	0.9166	0.7712	1							
g_score (5)	0.0030	0.7543	0.4611	0.5567	1						
l_employees (6)	-0.2992	0.4828	0.4740	0.4540	0.3433	1					
leverage (7)	-0.0699	0.1467	0.1441	0.1341	0.1073	0.1056	1				
CapEx (8)	0.3077	0.2051	0.1864	0.1861	0.1858	0.1210	0.0648	1			
mv (9)	-0.0527	0.4315	0.3822	0.4140	0.3359	0.4405	0.0992	0.1141	1		
EBITDA (10)	-0.1935	0.3461	0.2725	0.3455	0.2831	0.5330	0.0779	0.2209	0.760	1	
cse (11)	-0.2689	0.4328	0.3855	0.4259	0.3226	0.5364	0.0523	0.0519	0.861	0.7556	1

At a first glance, what can be observed from the Tables above, it is that there are not strong correlations among the different variables. Regarding Table 12, the highest overall correlation is recorded between the two main variables of the model: *ESG_Score and CSR_Committee,* with a positive value of 0.6348. This directs our study towards a light of hope, emphasizing the importance of having a committee that controls and implements CSR and sustainable practices.

Regarding the second table, it should not be surprising that the highest correlations are among the *ESG_Score* and its component pillars. Moreover, beyond this logical deduction, which is also reported in the data, at this point of the analysis it is important to understand what could be the element that most influences the main variables of our model. Indeed, focusing on the main explanatory variables, it is interesting how the highest variable correlated with the *ESG_Score* is the size of the company, measured as the logarithm of the number of employees (*l_employees*): with a correlation of 0.4828. Same reasoning may be applied to the *e_score*, with a correlation of 0.4740, as well as for the *s_score* with a correlation of 0.4540, and finally to the *g_score*, with a correlation of 0.3433. Furthermore, it seems that independent variables are negatively and low correlated with the dependent one, except for the *g_score.* This implies that the ESG Score may not be an optimal indicator of the dependent variables, but at this stage of the study it is too early to draw any conclusions, since this represents just correlation data. In the end, the purpose of this part of the study was not the one to reach hasty conclusions, but to demonstrate that the variables used, even if with low correlations, have non-zero coefficients. This means that there is sufficient evidence of a linear relationship between the variables X and Y: it is therefore possible to continue developing our model.

The next paragraph reports the empirical data of the regressions carried out in Stata. This is a key and decisive paragraph for our study, but above all it is a key passage to deduce our conclusions and enrich the literature by providing an answer regarding Italian companies. As previously mentioned, the paragraph opens with the study of the first model, responding to the first hypothesis, then moving to the second model and responding first to the second hypothesis and then to the remaining ones.

4.3. Empirical Results

Running a linear regression with multiple effects on Stata, using the command *reghdfe* and absorbing for companies and years, the following results and OLS coefficients have been obtained.

Table 13. The Model: Hypothesis 1.

	Dependent Variable ***ESG_score***
Independent Variables	Coefficients
const	-.2282975 (30.1604)
CSR_committe	**4.764321**** (1.544901)
l_employees	4.972372 (3.498072)
leverage	.0230096 (.0631555)
compensation	**5.328263*** (1.397236)
training	**5.531027*** (1.640616)
separation	**-5.068855***** (1.825082)
diversity	**.1869924**** (.0810565)
	FE Company & Year
Number Observations	302
F (7,191)	9.27
p-value (F)	<1%
R-squared	0.9593
Adjusted R-squared	0.9358

Statistical significance highlighted in ***bold.*** **, **, and *** denote statistical significance at the 1%, 5% and 10%.*

Table 13 shows the final outcome of the first regression, explaining the impact of the independent and control variables over the dependent one. Starting from an adjusted R-squared of 0.9358, the model expresses almost a perfect quality of fit, since approximately the 93% of the variation in the *ESG_score* is explained by the regression, while only the 7% remained unexplained by the model. This result was expected, since our model employed variables of controls used in in past literatures, as well as a homogenous sample set of only Italian companies. However, the aim of the research was the one to identify a possible correlation between the presence of a CSR committee in a company and receiving a particular level of ESG Score. Hence, to examine the overall significance of the model, the F-test is conducted. The significance of the F-test, with a p-value < 1%, highlight the validity of the model and that there must be at least one statistically significant variable. Starting our analysis on the p-values of the OLS coefficients, most of the variables are significant at a 99% confidence interval (*compensation* and *training),* at 95% *(CSR_committe* and *diversity)* and at 90% *(separation).* However, some variables are not significant such as *l_employees (*with a p-value= 0.157) and *leverage* (with a p-value=0.716). Nevertheless, the study is interested on the dependent and independent variables. Indeed, *CSR_committee* with a p-value of 0.002 is statistically significant at 95% confidence interval and it is positively correlated with the dependent variable *ESG_score*, with a coefficient of 4.764. This means that the CSR Committee significantly improves the explanation of the ESG Score variable, and it is possible to conclude that there is a statistically significant relationship among the two variables. In other words, the presence of a CSR Committee in a company, contributes positively on receiving a higher ESG Score.

Furthermore, a perspective on control variables may be useful. Indeed, having a Board made by women and men contributes positively to the ESG Score (with a coefficient of 0.186), as well as the presence of an environmental management training (with a coefficient of 5.531), and if the compensation of the CEO is linked to the total shareholder's return (with a coefficient of 5.328263). On the other side, the separation between CEO and Chairman position (with a coefficient of -5.068855) may lead to a lower score. Regarding the dimension of the company, expressed as *l_employees*, the coefficient is positive and high, with a value of 4.9723, but it is not statistically significant.

The next table shows the final outcome of the second regression, explaining the impact of the independent and control variables over the dependent one.

Table 14. The Model: Hypothesis 2.

	Dependent Variable
	l_tobinsq
Independent Variables	Coefficients
const	.050613 (.6326868)
ESG_score	**.0025119***** (.001403)
l_employees	.0281195 (.0748243)
leverage	**-.0067003*** (.0013176)
CapEx	**.0164097**** (.0069369)
mv	**.0000114**** (3.59e-06)
EBITDA	2.67e-09 (8.26e-09)
cse	-9.28e-09 (6.90e-09)
	FE Company & Year
Number Observations	267
F (7,165)	6.33
p-value (F)	<1%
R-squared	0.9721
Adjusted R- squared	0.9551

Statistical significance highlighted in ***bold.*** **, **, and *** denote statistical significance at the 1%, 5% and 10%.*

This second model relies on an adjusted R-squared higher than the previous model; describing 95% of the variation of the *l_tobinsq* and leaving unexplained just 5%. Again, the F-test is performed in order to verify the overall validity of the model, obtaining also in this case a p-value <1%, meaning that there must be at least one significant variable in the model. Starting from the variable of interest, the *ESG_score* is significant at the 90% confidence interval with a positive coefficient of .0025119. This means that the ESG Score significantly improves the explanation of Tobin's Q in logarithm terms, and it is possible to conclude that there is a statistically significant relationship among the two variables.

In other words, a higher ESG Score contributes positively on the overall financial performance of a firm, measured as *l_tobinsq*. Unlike the previous model, many control variables are not significant, such as the profitability of the company (*EBITDA*), the dimension (*l_employees*) and the common shareholder equity (*cse*). Instead, the capital expenditure (*CapEx*) and the market value (*mv*) of the company are statistically significant at the 95% confidence interval, with respective positive coefficients of .0164097 and .0000114. On the other side leverage (*leverage*) is significant at the 99% confidence interval with a negative coefficient of -.0067003.

These first regressions have emphasized the importance of a solid internal structure, which increases the final ESG score that consequently increases the financial performance, measured as the logarithmic function of the Tobin's Q. In other words, hypothesis 1 and hypothesis 2 have been tested and accepted.

However, this does not exclude the fact that more profitable companies may have advantages over still developing companies. Indeed, they may afford to employ more resources to invest in sustainable practices than competitors in the market. Reason for which, a logarithmic function has been identified as the dependent variable, in order to consider only the growth rate of the financial performance.

If the study does not consider and define the dependent variable as a logarithmic function, the outcomes of the model are slightly different from the ones just described. Indeed, the independent variable kept a positive coefficient, but gained a p-value of 0.124, proving its non-significance. Besides the few differences in the coefficients and p-values, the final meanings of the control variables remain unchanged. As a matter of fact, the dimension, the profitability and the common shareholder equity remain not significant, while the capital expenditure and the market value persist their significance. A similar analysis will be performed also for the following three regressions. The main point on this further specification, beside the fairness and clarity of the model, it is also to emphasize the fact that the change of a variable or a definition of a variable may lead to different results; reason why, the literature is still so confused on this issue and a general and universal model has not yet been defined. It is important to remember that a single result, such as the one obtained in this moment, is not sufficient to reach hasty conclusions. In fact, the variation of a definition of a variable may or may not reverse the situation, it depends on the specific case.

However, returning to the development of our model and the analysis of the empirical results on the remaining regressions, the following tables better identify how the individual pillars of the ESG score influence the financial performance of a company.

Table 15. The Model: Hypothesis 3.

	Dependent Variable ***l_tobinsq***
Independent Variables	Coefficients
const	.0684676 (6357203)
e_score	.0014685 (.0011449)
l_employees	.0343436 (.075025)
leverage	**-.0067702*** (.001336)
CapEx	**.0160352**** (.0069667)
mv	**.0000117**** (3.63e-06)
EBITDA	3.51e-09 (8.37e-09)
cse	-1.01e-08 (6.97e-09)
	FE Company & Year
Number Observations	267
F (7,165)	6.05
p-value (F)	<1%
R-squared	0.9719
Adjusted R- squared	0.9547

Statistical significance highlighted in ***bold.*** **, **, and *** denote statistical significance at the 1%, 5% and 10%.*

Table 15 shows the final outcome of the third regression, explaining the impact of the independent and control variables over the dependent one. Similar conclusion can be drawn for this regression related to the previous one. Also, in this case, the adjusted R-squared counts a value of approximately 95%, describing a high percentage of the variation of the dependent variable, leaving only 5% uncovered. Similarly, the F-test is performed in order to verify the overall validity of the model, obtaining again a p-value <1%. The statistically significant variables are the capital expenditure (*CapEx*) and the market value (*mv*) at 95% confidence interval and the *leverage* at 99%.

These are the only significant variables, in other words, no other variable is significant, including our independent variable of interest (*e_score*) with a p-value of 0.201. This means that it is not possible to conclude that there is a statistically significance between Environmental Pillar Score and the financial performance of the company. In other words, if "E" Score increases, it doesn't lead to a direct increase on Tobin's Q (in logarithm terms), even if the OLS coefficient is positive (0.0014685). At this stage, the third hypothesis has been tested and has not been accepted.

The next table provides the analysis and the final results of the fourth regression, focusing on the effects of the Social pillar Score on the financial performance.

Table 16. The Model: Hypothesis 4.

	Dependent Variable ***l_tobinsq***
Independent Variables	Coefficients
const	.0352709 (.6323452)
s_score	**.0020601***** (.0011117)
l_employees	.03057 (.0745965)
leverage	**-.0065089*** (.0013118)
CapEx	**.0167875**** (.0069522)
mv	**.0000113**** (3.59e-06)
EBITDA	1.68e-09 (8.25e-09)
cse	-8.73e-09 (6.90e-09)
	FE Company & Year
Number Observations	267
F (7,165)	6.37
p-value (F)	<1%
R-squared	0.9722
Adjusted R- squared	0.9552

*Statistical significance highlighted in **bold**. *, **, and *** denote statistical significance at the 1%, 5% and 10%.*

Same as the other models, the regression explains approximately 95% of the variation of the dependent variable and it is valid due to the F-test results. Same as the third regression, the significant controls variables are *mv, CapEx* and *leverage.* The biggest and most important difference, it is the significance of the independent variable (*s_score*) relative to the *l_tobinsq*, drawing completely different conclusions. It is observable from Table 16, that the *s_score* is statistically significant at the 90% confidence interval, with a p-value of 0.066 and a positive coefficient of 0.0020601. In other words, the Social pillar Score significantly improves the explanation of the financial performance of the company (*l_tobinsq*), and it is possible to conclude that there is a statistically significant relationship among the two variables; same conclusion that has been drawn for the second regression. At this point, the Hypothesis 4 has been tested and accepted.

Regarding a clarification on the model, as previously stated, if the study does not consider and define the dependent variable as a logarithmic function, the outcomes of the model are slightly different from the ones just described, or at least this is what happened in the second regression. In order to understand if this is true, a similar analysis on the three pillars of the Score will follow. Starting from the third one, if the study does not consider and define the dependent variable as a logarithmic function, the outcomes of the model are not so different from the ones just described. Indeed, the independent variable (*e_score*) keeps a positive coefficient and a very high p-value of 0.565, maintaining its not significance. Same considerations may be done for all the control variables that keep the same final outcomes. Moving to the fourth regression, the independent variable (*s_score*) still accounts for significant p-value (0.092 in this case) and a positive coefficient. Capital expenditure, leverage, market value are still all significant, while the profitability of the company, the common shareholders equity and the dimension of the company are again not significant. Lastly, in the fifth regression, final meanings of the model do not change; indeed, the dependent variable (*g_score*) remains insignificant (with a p-value of 0.220) and with a positive coefficient: as the following table will analyze more in detail, and no other changes occur in the control variables. This leads us to think, that in reality, the more a model is specialized, the lower the final result will be affected by a change of a variable definition, leading to a strong support in developing a universal model, able to provide a final and decisive answer.

The next table describes the final regression of our model and our study, relating the last pillar of the ESG Score with the corporate financial performance.

Table 17. The Model: Hypothesis 5.

	Dependent Variable ***l_tobinsq***
Independent Variables	Coefficients
const	.0982519 (.6389247)
g_score	.0007436 (.000814)
l_employees	.0352197 (.075456)
leverage	**-.0065558*** (.0013236)
CapEx	**.0151148**** (.0069536)
mv	**.0000111**** (3.61e-06)
EBITDA	2.39e-09 (8.32e-09)
cse	-9.36e-09 (6.95e-09)
	FE Company & Year
Number Observations	267
F (7,165)	5.90
p-value (F)	<1%
R-squared	0.9718
Adjusted R- squared	0.9545

Statistical significance highlighted in ***bold.*** **, **, and *** denote statistical significance at the 1%, 5% and 10%.*

As previously anticipated, Table 17 describes the final results of the last regression. The same conclusion described in Table 15 can be deduced. Beside the fact that the model describes the variance of the *l_tobinsq* for 95% and that the model is valid, as shown by the F-test, many variables are not significant, including the independent one (*g_score*). Following the same reasoning as before, it is not possible to conclude that there is a statistically significance between Governance Pillar Score (with a p-value of 0.362) and the financial performance of the company. On the other hand, the only variables related to the financial performance are *leverage*, the market value (*mv*) and the Capital expenditures (*CapEx*).

In other words, if “G” Score increases, it doesn’t lead to a direct increase on Tobin’s Q (in logarithm terms), even if the OLS coeffect is positive (0.007436). At this stage, the fifth hypothesis has been tested and has not been accepted.

CONCLUSION

The historical period we are experiencing, unique of its kind, has made us understand how man and nature are actually bond in this world. It is for this reason that local, international and global political forces are moving on this front to induce companies towards a sustainable approach in their operations and activities in the society.

The vision of a company that engages with practices in the social, sustainable and corporate governance dimensions is not remote from our days. In recent years, numerous are the companies that have been assuming pivotal roles in this journey towards a better future, as well as numerous are the investors that are supporting companies’ initiatives. Indeed, the growing importance both in the financial and business environment, has led to an alignment among the shareholders’ and managers perspective on social practices.

Given the increasing amount of awareness of both investors and literature toward the relationship among the ESG practices and the corporate financial performance, our analysis provides a new positive evidence on this relationship.

The objective of our research has been the one to find out how the engagement of sustainability affects the firm’s financial valuation, and whether the internal organization of a company may or may not be relevant. Therefore, five regressions on the selected data have been conducted to explore these relationships. It has been proven that the CSR Committee is a key determinant in obtaining a high Score, as well as the diversity of the board, the CEO’s compensations related to the total shareholders return, and the management training on environmental issues. In this study, the importance of individual companies and their attitude towards the subject emerged. Specializing and diversifying a part of the board, training the mangers but also all the workers on sensitive issues, is what really matters today and that could make the difference in an incoming tomorrow. Thinking outside the box, having a vision of the company other than just mere profit and committing to being an active citizen in the community, is what tomorrow's business will have to represent, if they want to succeed in the market.

Furthermore, if a company engages in sustainable practices and develops an internal organization in this perspective, there are many advantages that will follow, not only towards the planet and a better future, but also towards the individual shareholders of the company itself. Reason, that prompted our analysis to ask whether having a high ESG Score and investing in this field could also bring financial benefits. It has been proven that investing in sustainable practices, increasing the overall Score, has long-term financial benefits; thus, denying the heated struggle between shareholders and managers.

This conclusion may seem too hasty, as the ESG Score was not significant for each of its components. Indeed, with the exception of the Social pillar Score, two fundamental pillars such as Environmental and Governance ones were not significant. A possible explanation of this phenomenon could be the fact that the issue of sustainability has only been spreading in recent years. Furthermore, being able to analyze the relationship between financial data and ESG ratings in such a short time frame is rather complicated and the insignificance could be a consequence of it. This, however, should not be seen as a sign of defeat, but a sign of hope, since as has been analyzed in the descriptive statistics, in recent years, there has been an exponential increase in the sustainable data.

It could be interesting for future researches on the subject, to develop an analysis taking into consideration a larger data sample, since the Italian one is not as developed as others, as well as to analyze the effects over a longer period of time. Another interesting road for future studies may be the one to expand the geographical scope, as well as in other stock markets.

To conclude, the first purpose of this research was to understand whether investing in sustainable practices- therefore having a higher ESG Score- besides the moral gain, could also lead to financial benefits: which has been confirmed. Then, this main connection was broken down by examining the three components of the Score, as well as the influence of a specific internal organizational structure in a company. The final conclusion we have reached, and which has been previously stated, is that having an internal structure, specifically a CSR Committee, leads to the accomplishment of higher Scores. These Scores lead to the achievement of higher financial performance. This implies that investing in sustainable practices not only benefits the society at large, the world we live in and the future of our children, but also leads to financial benefits for shareholders, definitively eliminating this continuous conflict between managers and investors: two of the main protagonists in our story, who have always found themselves fighting against each other, but who now join forces to fight a common enemy.

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