Department of Economics and Finance

Chair of Corporate Finance

The Impact of Corporate Social Responsibility on Stock Prices: An Event Study on the Italian Case

Author:
Licia Becchetti

Supervisor:
Prof. Jacopo Carmassi

Academic Year 2014/2015

Dedication

To my mom Cinzia, my dad Massimo and my brother Marco Valerio,
for their love, their patience and their support.
They are the ones that I will always leave and the ones I will always return to.

To the Champers,
for the distance of our eyes and closeness of our hearts.
I will never spend a day without missing them.

To Claudia,
for the complementarity of our minds,
for the strength of our bound and for the beauty of her soul.
Throughout the years, our friendship has taught me more
than all the hours spent studying.

To Gabriele,
for all our fights, for all our successes and for each day by my side.
Always together, in the good and in the bad times.

To my grandmother Anna,
who would have considered this dissertation a masterspiece
even if she would have not understood a single word of it.
Any time I read it, it is for her, because she knows the deeper meaning of it.

Acknowledgments

The most important lesson I have learned in my academic career is that my successes strictly depend on the people I have by side. Graduating with a bachelor's in Economics and Business is the first big achievement of my life and this thesis represents for me a source of pride. Still, none of those words would have been written without the support of many others.

Firstly, I want to thank my professor Jacopo Carmassi, not only for his help, but rather for his excitement and his dedication. He has given me the opportunity to write my thesis on a topic that I am truly interested in, being available and willing to discuss with me my work at any time. I have really appreciated his patience and his competence.

Heartfelt thanks to Michela, Martina, Camilla, Giammarco and Elisa, for their fortitude, for their support and most of all for their love. They have been my strength through the years, the motivation for a continuous improvement. Wherever I have been in the world, their friendship has been my hand luggage. The serenity , the support and the joy they bring into my life is exactly what makes me perform good, aiming for success. I am the luckiest to have the strongest on my side.

And thanks to Marco, for being the only person who has never lost track of my achievements. He has been near me throughout this journey, despite the difficulties. He has been my personal motivator, the greatest one, and his presence has inspired *me in many ways. He has helped me not only to control my temper and the stress, but also to actually love being under pressure. Thanks for pushing me, thanks for the calmness in the storm, but most of all thanks for supporting me every day, no matter what.*

Many thanks to Cesare, for the person he sees in me and for not being aware of his impact in my life. Our talks have brought clearness into my life whenever I was blind.

But mostly, I need to thank my colleagues. Spending my second year in Utrecht has taught me the power of the group. Together until the end. Thanks to all the people who shared with me that moment. They have been essential for the results. I am honored to have been your colleague and especially your friend.

In particular, thanks to Claudia, Gabriele, Andrea, Giulia, Marta, Anxhela, Jacopo, Lorenzo, Antonio and Elisabetta, for the greatest lesson of all: working together is a privilege. The team is more effective than the individual. Competitiveness is in my blood, but with them I have learned the beauty of cooperation. The best performances of my career have been possible only because of the team work. When I was falling, I have always found someone to lean on. We have faced each academic challenge as a possibility to share the burden together in the most pleasant manner. The positive mental attitude of the group is the secret of success. Thanks for all the battles in the arena. I have been privileged to fight on your side.

Thanks to Cecilie, the person who has changed me the most in those years. She enabled me to see magnificence in every single day, changing my attitude toward life. She has become family to me. And that is truly powerful.

Finally, thanks to Gianluca Zappa, for being a guide for me, even today. Each of his teachings has been precious and has formed the person I am today.

Contents

Introduction **1**

1 Corporate Social Responsibility: an Overview **5**

1.1 Defining CSR and Its Origins 5

1.2 Analysis of the Reasons Behind the Adoption of CSR Practices . . . 9

1.3 The CSR Report: An Overview 13

1.4 Current Positions about CSR: a Global Perspective 16

2 Corporate Social Responsibility and Investors' Reactions **21**

2.1 Market Efficiency and Behavioral Finance: Getting Away from Fundamentals? 21

2.2 Relationship Between CSR and Financial Performance 26

2.3 Analysis of Reactions of Investors to CSR 29

2.4 Italian Market and CSR: Literature review 33

3 Empirical Evidence: an Event Study applied to the Italian Market **36**

3.1 Hypothesis Formulation: The Italian Oxymor 36

3.2 Data 38

3.3 Methodology 40

3.3.1 A Brief Introduction 40

3.3.2 Application 40

3.4 Findings 46

3.5 "Let's assume": a Fairytale for Market Players 53
3.6 Limitations 54

Conclusion **56**

Bibliography **60**

Introduction

Globalization and the modern era have brought with them a new perspective on how to run businesses. The role of companies is gradually shifting from a purely pecuniary stance toward a moral integrity. To some extent, corporations are assuming an anthropomorphic connotation in the society, being deemed to behave as any other good citizen in the interest of the common well-being.

The trend in favor of Corporate Social Responsibility (CSR) has strengthened its position through the years, becoming one of the cynosures of academic debates and of the public interest. The importance of the discussion is due to the radical transformation under which the business world is undergoing: from their natural arrangement founded on the profit motive, firms are progressively reorganizing their structure in order to embed moral restraints in their attitude toward the bottom line. The accounting framework of the Triple Bottom Line (TBL), introduced by John Elkington in 1994, adds to the usual disclosure of financial information the necessity of accountability with respect to social and environmental concerns.

This new approach has many advantages, both for companies and stakeholders: CSR practices are seen as a tool to achieve a competitive advantage (Porter and Kramer, 2002), a marketing means to create long-term relationships with customers (Mihalache, 2011), a channel towards new markets and partnerships (Tencani & Zsolnai, 2010; Babiak & Trendafi, 2010) as well as the response to stakeholders' request of additional information (Garriga & Melé, 2004). However, contrasting views criticize the idyllic vision of CSR as a win-win situation, backing up their allegations on the additional costs imposed on the company (Karnani, 2010), on the hidden agenda of managers (Hemingway& Maclangan, 2004) and on the use of sustainable practices as a diversion from deceitful conducts (Caulkin, 2002).

Clearly, corporations are facing divergence in clashing views: on one hand, companies should focus exclusively on making money, maximizing revenues for their investors (Friedman, 1970, September 13th), on the other they should make profits complying with social restrains and moral duties (Frederick, 2006). The question is whether satisfying the requests of both stakeholders and shareholders is somewhat achievable at a corporate level. The answer is very relative to shareholders' reactions shaped on the structure of the society (e.g. voluntary or mandatory disclosure of CSR information), the culture, the adaptability and the responsiveness of the community (Bethel, 2012; Campbell, 2006; Karnani, 2010; Izzo & Di Donato, 2012).

Developed countries are gradually adjusting to sustainable practices in order to guarantee a better future to next generations and financial markets are increasingly appreciating the participation of firms in CSR activities. US, UK, along with Northern European countries and Japan are currently trying to adopt policies and spread a philosophy intended to sensitize the public to sustainability. The promotion at a voluntary corporate level along with regulations from higher institutions underline the importance that CSR is assuming in the international context.

By contrast, the Italian market appears indifferent to the cause and investors seem to negatively value the effort in the field of sustainability, considering it as a misallocation of resources (Izzo & Di Donato, 2012; Cardamone, Carnevale and Giunta, 2012). Moreover, the Italian framework, made of a strong government intervention in the economy and a predominance of family capitalism, is strongly responsible for the backwardness of the financial market in the evaluation and application of CSR (Fiori, Izzo & Di Donato, 2008).

Still, the novelty of the scientific literature regarding the Italian position on the matter does not allow to unveil a possible linkage between corporate performance and CSR. This thesis wants to further investigate what is the reaction of investors to the disclosure of information regarding corporate social responsible practices, to understand the prevailing position of the market toward CSR, and to expand conclusions to the general perception. The empirical study on 28 companies listed in the Milan Stock Exchange provides further evidence of the pessimistic attitude of investors toward the publication of CSR reports, demonstrating a diffuse skepticism on the benefits of social responsibility.

The originality of the methodology not only lies on the application of an event study for the empirical evidence, but also on using of the publication of the first CSR reports as the pivotal event under analysis. In light of the new directive approved by the European Union, which compels large companies to report on environmental, social and corporate governance impact in their annual report (Directive 2014/95/EU, 2014), this paper provides additional insights on the current situation in Italy, aimed at better understanding and possibly predicting the investors' response to the new regulations.

The study is divided in three chapters.

In Chapter 1, CSR is contextualized in the corporate setting. After identifying a shared definition of corporate social responsibilities in section 1, an analysis of the main determinants that drive firms to adopt CSR practices is drawn in section 2. Additionally, information and clarifications on CSR reports are explained in details in section 3, to finally conclude in section 4 with a global view of CSR engagements at international level.

Chapter 2 is focused on how the market respond to CSR practices, marking the link between Corporate Social Responsibility and stock prices. In Section 1, the market efficiency is inquired by the introduction of behavioral finance and investor sentiments in evaluating new information. Then, the relationship between CSR and financial performance is outlined in Section 2. Section 3 reveals the investor reactions to CSR through existing literature, focusing in Section 4 on the previous studies regarding the Italian market.

Chapter 3 discusses the empirical study. Section 1 introduces the initial hypothesis made in this thesis; Section 2 reports information about data. In Section 3, the methodology is meticulously explained step by step, leading in Section 4 to the findings of the empirical analysis. Section 5 presents a brief excursus on arbitrage opportunities derived from CSR, and finally Section 6 states the limitations of this paper.

At last, final assertions are discussed in the Conclusion, providing suggestions for further researches.

Chapter 1

Corporate Social Responsibility: an Overview

1.1 Defining CSR and Its Origins

Nowadays, the concept of Corporate Social Responsibility (CSR) represents more a philosophic debate among scholars and researchers than a proper conceptualization of the issue. Indeed, CSR is a very pliable concept which has not found its definition yet. Many are the different conceptions and the different positions on its regard, differentiating from each other by quibbles and theoretical nuances. Still, it is a very old idea that became more relevant in the 20th centuries.

As the literature suggests, notions and theories about CSR became more intense after the World War II (Caroll & Shabana, 2010). The generally accepted threshold to identify the beginning of the modern literature on this subject is set forth by the publication of the seminal book "Social Responsibilities of a Businessman" by Howard R. Bowen (Bowen, 1953). In his book, he highlighted the role of the largest businesses as vital centers of power and decision-making, influencing the lives of people in several aspects. Bowen inquired what are the responsibilities of a businessman towards the society, being an integral part of the community (Carroll, 2008). Precisely, he gave an initial definition of social responsibility (SR) (Bowen, 1953):

"(SR) refers to 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."(p.6)

Bowen's interpretation paved the way to a substantial literature on the topic, being the prompt for the evolution of the philosophy. For instance, Patrick Murphy (1978) was able to identify four eras in the evolution of corporate social responsibility. He classified the early 1950's as the philanthropic era, in which corporations donated to charities, followed by the awareness era, in 1953, where companies started to recognize their responsibilities towards the public and to be involved in the community affairs. The breakthrough took place with the issue era, in the 60's, with the need to understand the social effects of technology, the urban decay, racial discrimination and pollution concerns. By the end of the 1960's, social responsible practices included philanthropy, employment improvements, customers and stockholders relations (Heald, 1970). Many collective matters were considered, including health and human services, culture, arts and civic (Muirhead, 1999).

Only in the mid 1970's, with the responsiveness era, businesses started acting responsibly at managerial level, addressing their attention on boards of directors, ethics and social performance disclosures (Murphy, 1978). Indeed, as Harold Johnson (1971) suggested, a social conscientious firm has to undertake proper managerial practices in furtherance of the balance of multiple interests: "besides those of the stockholders, it takes into account suppliers, dealers, employees, communities and the nation". The core concept is that companies should shift the management of their business to produce an overall positive effect for commonweal. They should consider the quality of their administration - how they engage with people and processes - and the quantity of their impact on the society, being able to measure their engagement (voluntarily initiated) and compliance (legally mandated) in environmental, social, and governance (ESG) issues (Liang & Renneboog, 2014).

Differently from Murphy (1978), William C. Frederick, who is deemed as one of the pioneer of the CSR evaluation (Bono, 2006), tried to find common patterns in the history of corporate social responsibility. He identified three pillars at the base of the evolution of CSR: the perception of corporate managers as public trustees, the idea of balancing competing claims on corporate resources and the recognition of philanthropy as a manifestation of business support of good causes (Frederick, 2006).

Therefore, the historical progress has led to general consideration that each and every business, from small to large size, has the moral duty to behave in the interest and in the respect of the society as a whole. CSR is a multidimensional concept by nature, as it is based on the belief that a corporation's obligations are far more than those related to its shareholders. Indeed, even though the precise definition of corporate social responsibility is largely an aleatory notion, the main idea is that CSR can be described as the commitment by business to behave ethically and contribute to the economic development of the society at large (Holme & Watts, 2000). For example, the European Commission defined CSR as "the responsibility of enterprises for their impacts on society"and encourages enterprises to "have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders "(European Commission, 2011).

Likewise, a substantial contribution was given by the Committee for Economic Development (CED), which elaborated a three-concentric-circles definition, composed by an inner, an intermediate and an outer circle, of social responsibility.

The inner circle includes the basic duties derived from running a business for its economic function: providing services, products, employment and economic growth. The intermediate circle contains all the responsibilities of operating a business in a sensitive way related to the changes in social values and priorities, such as environment conservation, relationships with employees, informing consumers, fair treatment, and protection from injuries. The outer circle encompasses all the ambiguous burdens that firms assume in order to help the society, such as urban blight.

This classification results truly noteworthy due to the fact that the publication of "Social Responsibilities of Business Corporations " in 1971, on which the model was described, was the response to a period in which social issues as environment, worker safety consumers and employees were going to be regulated by the government at a certain degree. The work gave guidelines on how a business should be managed (CED, 1971).

Archie B. Carroll, who developed one of the most inclusive delineation of CSR in 1999, also cited the definition given by the CED. He described CSR as composed by four kinds of social responsibilities: economic, legal, ethical and philanthropic. The four categories are depicted in a pyramid, called the Carroll's pyramid. He started from defining a business organization as the basic economic unit of the society and he put the profit motive (economic responsibility) as the foundation of the pyramid; in fact, he sustained that the principal role of a firm is to produce goods and services for the consumers, making some profits out of it. However, in the second layer, he recognized that profits have to be made complying with laws and regulations (legal responsibility); in some senses, law is a commonly accepted sort of "codified ethics " that must seal a "social contract" of reciprocal respect between business organizations and the society as a whole. Still, what is not prescribed by law, it is included in ethics. The members of the society generally accept ethical norms about fairness and justice and business organizations should comply with them (ethical responsibility). Finally, a businessman should be able not to live up to the society's expectations of being a good citizen, engaging in activities conceived to promote the common welfare and to improve the quality of life (philanthropic responsibility), like contributions to art or education. With this pyramid, the author suggested to administer a firm by using moral management, namely treating all stakeholder in a fair and ethical manner (Carroll,1991).

Thus, the concept of Corporate Social Responsibility can be summarized as the firm's engagement in those "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams & Seigel, 2001).

In the next section the adoption, the reasons and the means of such practices will be discussed more in depth.

1.2 Analysis of the Reasons Behind the Adoption of CSR Practices

As previously touched on, the modern era calls for a more comprehensive attention to many stakeholders, which goes beyond the core duties of the firms. Many companies seem willing to engage in such practices due to the potential benefits deriving from a sustainable behavior. As Cetindamar and Husoy (2007) suggested, inducements of CSR can be distinguished in two macro areas: CSR can be considered as a "sustainable economic development", thus incentivized by economical motivations, or as " working with stakeholders", through a more ethical prospect.

In economic terms, CSR represents a strategic instrument to achieve economic objectives and create value for shareholders, those whom the company is responsible to (Garriga and Melé, 2004). In accordance with the theory of the firm, which states that corporations make decisions in order to maximize profits, CSR becomes an engine that exploits different channels in pursuance of its aims. Specifically, Porter and Kramer (2002) highlighted the powerfulness of investing in philanthropic activities as a mean to achieve competitive advantage and to produce long-term profits. Even more specifically, Burke and Lodgson (1996) argued that CSR becomes strategic when it supports the core activities of a business, helping the company to achieve its mission. In addition, CSR activities can be seen as a marketing tool to influence consumers' decisions by signaling trustworthiness with respect to the brand and its products: in some senses, social responsibility helps the company to forge the brand image toward a long-term perspective (Mihalache, 2011).

Ultimately, the leitmotif is the usual: profits. Anyhow, CSR opens the possibility of making money with respect to different interests, creating a win-win situation, where “doing well by doing good ”appears the logical solution to achieve an advantage while making stakeholders satisfied. Moreover, being involved in social issues represents a chance for firms to improve their market position and to access new markets by the engagement in non-traditional partnerships and synergies with non-profits organizations (Tencani & Zsolnai, 2010; Babiak & Trendafi, 2010).

On the other hand, the ethical perspective is less profit-driven and more society-oriented. According to this view, firms need to accept social responsibilities as an ethical duty based on the principle of doing the right thing. Stakeholder management become central: “managers bear a fiduciary relationship to stakeholders” (Freeman, 1984), those who have a claim or interest on the firm and deserve consideration, such as suppliers, customers, shareholders, employees and the society (Garriga & Melé, 2004).

Surely, the economic and the ethical orientations are not the only two at stake, but the literature includes a variegate set of different explanations and motivations that encompass any branch of study, from politics to psychology. For the purposes of this thesis, only a small chosen set is briefly reviewed, adopting a Socratic approach (“All I know is that I know nothing”).

Hemingway & Maclangan (2004) argued that even personal values can be a driver of CSR, especially in case of managers’ decisions. As the agency theory suggests, when there is a division between ownership and control in companies, managers can undertake behaviors that may conflict with the official corporate objectives. The authors affirmed that CSR could be prompt not by an idealistic altruism, but by a psychological egoism: managers could engage in sustainable activities just for the sake of feeling good about themselves, or for any other sort of self-interest. When managers can exercise their power in the decision-making process, they may be willing to undertake projects addressed to specific issues which are of their concern.

Instead of exercising their discretionary power in line with the shareholders will, a conflict of interest might arise, pushing them to use CSR as an instrument to achieve personal recognition and enhance their reputation, disregarding the risk associated with it (Hemingway & Maclangan, 2004; Menon and Menon, 1997).

Still, as far as the corporate social responsibility serves the interests of society, the reasons beyond it can be overlooked, unless it is used as a front for improper conducts. For instance, in some cases CSR has mitigated the effect of the negative media reports. Caulkin (2002) brought out the case of Enron, the American energy company based in Hudson, well known for one of the worst accounting scandal, as a blatant example. In fact, the company was able to use accounting gimmicks and loopholes as well as special purposes entities to cover billions of dollars in debt from wrong investments and projects, leading the company to the bankruptcy and sweeping losses for its shareholders (Bratton, 2002). Throughtout the years, Enron significantly contributed to causes pertaining to arts, sport and medicine in the city of Huston, but all the support was just a figleaf to cover misdemeanors. In this case, social responsible actions acted as a marketing medium to buy reputation (Caulkin, 2002). Hence, companies are able to divert the public attention from more substantial reforms, adopting the Stalinist tactic of divulging a good image to cover up violations.

Public image as well as public pressure are really relevant when it comes to CSR. Institutions - defined as formal rules and taken-for granted social structures, norms, cognitive influences and routines - act as a constraint for companies' actions. Firms are influenced in their acting by the institutional framework, feeling the duty to do what they are "supposed "to do, according to the logic of appropriateness. The cognitive influence that institutions can exercise persuades companies to make certain choices because they cannot undertake any other alternative. The pressure that society puts on corporations may spur managers to behave in a more responsible way, even more if they encounter state rules, industrial self-regulation, supervision by non-governmental and other independent organizations and a normative institutional environment that encourages ethical conducts. Likewise, peer pressure is crucial, because if competitors are involved in such activities, companies may feel the urgency as well. The intuition is that organizations desire to maintain legitimacy, (defined as the positive perception of society about the company) and for this reason the decision-making of managers with respect to social responsibility is institutionally conditioned (Campbell, 2006).

Yet, albeit the institutional context should guarantee a closer attention to sustainability, the voluntary nature of CSR has been questioned as no longer tenable. The debate claims that companies are naturally inclined to the protection of their self-interests: if profits go in the opposite direction with respect to the public concerns, the call for a social responsible behavior will be disregarded, for the sake of preserving what lies at the company's heart - shareholders. If the argument is valid, the consequential solution is the call for intervention from upstairs, imposing compulsory regulations, in order to prescribe roles and sanctions (Bethel, 2012; Karnani, 2010). The advocacy for mandatory practices is seen as a way to ensure accountability, transparency and to gain trust from the community.

The antithetical nature of capitalism with respect to sustainability brings strength to the argument, highlighting the persistency of the society's problems related to the public welfare. As in the case of environmental challenges, the demand for responsible behaviors is quite persistent, at least more intense than before. If such matters were in the interest of corporations, the call would have not become relevant at first. (Baden & Harwood, 2010). Governments could force companies to pay attention to their surroundings and encourage them to respect the interests of the society in the first place.

On the other side of the coin, even government intervention may raise complications. Firstly, it inflicts additional expenditures on companies, causing lack of efficiency and resources. Secondly, the imposition of regulations wipes out the voluntary nuance of a social responsible attitude. Thirdly, possible corruption within the system may lead to unintended consequences (Karnani 2010; Karnani, 2013).

In conclusion, the application of social responsible practices runs parallel to the profit motive driven by many internal and external influences, from economic reasons to more ethical purposes, from intrinsic to extrinsic motivators, and the debate is still open to new possible influences. Beyond the microenvironment in which it operates and it is liable for its actions, a company is part of a macrosystem composed by many and various stakeholders, asking for attention and consideration. The latter want to have reliable and accountable information on which to base their evaluation and the company has an interest in complying to their request aiming at a good reputation in the market. For this reason, a corporation has to disclose more than a balance sheet and a cash flow statement.

In the next section, the reporting system with which companies communicate to the stakeholders will be analyzed.

1.3 The CSR Report: An Overview

Sustainability is a fairly old notion, uncatchable and undefinable. Still stakeholders have asked for something more than good intentions and promises. The argument on CSR practices has called for realization, a tangible proof of transparency and accountability. Abstract ideas needed to become concrete, discernible, measurable. A report has been shaped as a response to the external pressure and the concept of sustainability reporting came to life.

By definition, a CSR report (sustainability report) is a document published by an organization or company on the economic, social and environmental effects that the business causes or experiences. The report has a double function: it helps the corporation to quantify and comprehend its entailments on the social welfare conducive to a proper handling of changes and adjustments, and it informs stakeholders on the corporate sustainable performance in terms of economic, social, environmental and governance matters.

Drafting a CSR report can be beneficial to a company on multiple dimensions: it enables to enhance loyalty toward the corporate brand, it helps employees to be more aware and confident about the company's policies,and it allows the corporation to differentiate from competitors in the innovative field of CSR practices. (UNDP, 2007).

The reporting system is quite flexible to the needs of any kind of organization, in order to reflect the essence of the company. There is no regulation in the process, each company can decide how to communicate its CSR results, and it has often a voluntary nature (Godelnik, 2012). Narrative forms and non-financial metrics are usually utilized because of measurement difficulties in the sustainable field (Soderstrom, 2013).

However, the lack of standardization makes the analysis and the comparison between different firms rather difficult. Accordingly, the practice of sustainable reporting is rather fledgling and it requires further advancements before a complete adoption.

Roots of the reporting practices are found in the 1970's and 1980's with annual-report sections on environmental issues, which were not related to corporate performance (Tepper Marlin & Tepper Marlin, 2003). In this period the concept of social accounting appeared as measurement methods and reporting standards for the social and economic consequences of the entrepreneurial behavior. Ramanathan (1976) was able to outline some basic accounting concepts as social transaction, social overhead, social income, social equity, social constituents and net social assets. But only in the 1990's sustainability reports began to emerge, inclusive of wider issues, such as the influence of firms' conduct on the society.

Pioneering efforts on ingenious techniques and the implementation of social and ethical auditing led to the drafting of innovative reports, meant to take into consideration different viewpoints and to define the objectives and plans in consideration of several interests (Katsoulakos, Koutsodimou, Matraga, & Williams, 2004).

John Elkington gave a major contribution in 1994, introducing the concept of Triple Bottom Line (TBL). With this term, it is described the accounting framework that incorporates three dimensions: social, environmental and financial, usually referred as the three Ps - People, Planet and Profits. TBL advocates that social and environmental performances can be measured with fairly objective approaches on the basis of standard indicators, and that a “social profit or loss”can be calculated using the data from the indicators. The addition of more bottom lines to the traditional accounting profit or losses at the end of the financial statement is meant to guarantee a full cost accounting, both for the business and the stakeholders (Norman & MacDonald, 2004; Elkington, 1997).

Still, there are no requirements nor conformity in the report methodology. For this reason, many reporting initiatives have gotten a foothold in the reporting contest.

The Global Reporting Initiative (GRI) is a multi-stakeholder independent organization that has developed the most widely used, internationally accepted framework for the disclosure of corporate sustainability. The framework offers a manual for the preparation of the reports, providing guidelines, principles and indicators capable of measuring economic, environmental and social performance with the purpose of influencing the evaluation and the decisions of stakeholders (GRI, 2013). The final purpose of the GRI has been the harmonization of the numerous practices ensuring completeness, transparency and accountability by promoting common procedures based on a familiar financial reporting system (Fleming, 2006).

Another important organization with the intention of setting the standard for corporate responsibility is AccountAbility. The institute has developed a series of principles addressed at assisting firms in the draft of sustainability reports. Those standards are noteworthy for the consultation of various stakeholders in their design and development phase: their engagement should improve the quality of the information disclosed by prescribing how companies should address to public concerns, in complementarity with the GRI guidelines (Katsoulakos, Koutsodimou, Matraga, & Williams, 2004).

Furthermore, the International Organization for Standardization (ISO) published international standards for social responsibility, supporting companies in the integration of CSR into management processes. Its aim is to help corporations and organizations to translate principles into actions, improving their impact on the workers, the environment and the society by clarifying what social responsibility is through an international consensus (Hahn, 2012).

These three references and guidelines are just a small set of those that a company could choose to adopt. Several reporting standards are sketched on different boundaries (international, European or national) or on different sectors and reporting themes. Businesses are left with deliberative power in the choice of the most appropriate form of reporting in order to satisfy the multi-stakeholders audience, creating cross-countries disparities on procedures and approaches.

1.4 Current Positions about CSR: a Global Perspective

CSR practices are perceived differently among the society. With the globalization and the global managerial culture, the CSR report has acquired popularity and great consent in the international management field. Nevertheless, the national context and the local culture have a strong influence on CSR pursuits and reporting: management studies have contribute to an increasing literature, sustaining that varieties of capitalism, national formal and informal institutions and ideological traditions result in dissimilarities in CSR practices across countries (GjØlberg, 2009).

Matten and Moon (2008) claimed that in liberal market economies, companies are inclined to choose more "explicit" forms of CSR, in a voluntary and deliberate corporation assessment, while coordinated economies embed norms, values and rules (often mandatory) resultant from the institutional environment surrounding the corporation. Hence, worldwide there is a great debate about "voluntary versus mandatory" CSR reporting. Legislators have to face the decision between leaving it to the market forces and support indirectly several non-governmental initiatives that promotes CSR reporting, or to actually intervene through imposing mandatory reporting, incentivizing reports, introducing voluntary guidelines or transferring regulatory power to self-regulating parties.

Different positions are sustained across the globe, with a variegate range of results. Sweden is a pioneer country in CSR reporting regulations, being the first nation in 2008 to impose CSR disclosure on state-owned companies in accordance with the GRI standards. Northern European governments have followed the path, introducing mandatory compliance to CSR protocols, leading by now the rankings on corporate social responsibility performance (Zeljković, 2012). Likewise, UK is considered one of the leader in CSR, for many reasons, among which a number of regulation complementary to voluntary initiatives, the mandatory disclosure of information on the workplace, the environment and the community in annual reviews for quoted companies, the financial resources devoted to the cause and the high percentage of corporate reporting (Mullerat, 2013).

Indeed, Europe is a leading continent in CSR matters, counting almost for a 38% of the global companies that are currently reporting (Quinn, 2013). Sustainability and CSR reporting have been constantly on the agenda of the European Union: EU reporting regulations have been trying to provide minimum legal standards for reporting at a supranational level, in order to harmonize the accounting rules in EU countries (KPMG & UNEP, 2006). On December 2014, a brand new Directive has entered into force, requiring listed companies and public interest entities with more than 500 employees to disclose in their management reports policies, risks and performance on environmental, social and employee aspects. The companies will have 2 years to transpose the Directive into the national legislation, left with much flexibility in the methodology and in the standards that will be applied; in addition the European Commission has started a series of workshop to help the transposition process (Directive 2014/95/EU, 2014). This regulation is meant to bring more conformity and comparability, leveling out some of the cross-countries difficulties in interpretations and practices.

However, EU doesn't stand alone in the issue: huge markets for international companies such as China and India are riding high on the growing trend toward non-financial performance reporting (Goelzer, 2014). Those two countries are currently experiencing a significant shift toward a mandatory system, fostering the generation of CSR laws, practices and initiatives, and rejecting the idea that social responsibility should be merely voluntary. They are trying to develop their own CSR regime as an alternative to the Western models, in order to adapt to the challenge of an outstanding economic growth accompanied by a privatization trend in a climate of corruption and lack of transparency. The intent is to develop a system that incorporate their cultural e societal characteristics, which may be an engine for innovation and development (Afsharipour & Rana, 2014). For example, India obliges companies with at least $830,000 in profits to spend 2% of their three-year average annual net profit on CSR activities to the extent of obtaining a significant impact on social and environmental concerns such as education, water, health, hunger, poverty and malnutrition (Cone, 2014).

Instead, China has taken consciousness of the sever inequalities and the environment pollution and it has felt the necessity to force certain listed firms from the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE) to release information on Environmental, Social and Corporate Governance (ESG) responsibilities. The government has also revised Article 5 of the Company Law, obliging corporations to undertake social responsibilities in course of the business operations (Ioannou & Serafeim, 2014).

A very divergent position is occupied by Japan in the Asian context, which represents one of the leading countries in CSR. Although the CSR is not mandatory, many the companies are currently reporting in a sustainable manner. The success of the voluntary system is not given either by political pressure nor external factors, but it derives from a social and cultural context that can be described by the Sampo-Yoshi phylosophy of the three way satisfaction: any economic transition should benefit the seller, the buyer and the society as a whole (KPMG & UNEP,2006; Kokubu, n.d.). The Japanese case proves that there is not a unique determinant or driver of CSR reporting that can ensure a correct and effective application of the standards.

Along this pattern, Australia has adopted a voluntarly approach to CSR and it has experienced a dramatic increasing sensitivity to the social responsibility, presenting a striking 83% of the top 100 companies in Australia by revenue as involved in CSR reporting (KPMG, 2013). The Australian companies have probably recognized the concrete benefits as well as risks that the environmental and social changes are bringing along and they are trying to fully exploit the opportunities derived from CSR.

On the Western part of the globe, United States keeps maintaining a voluntary regime on matters of CSR, although the state requires disclosure on particular CSR issues. Despite the lack of compulsory rules and specific requirements, American companies have faced an increasing demand for non-financial information, which has brought the exigency to disclose the organizational set-up and the corporate values, in order to gain a positive response from the public. In fact, stakeholders are currently realizing that they need to have a broad picture of a company in all its aspects to assess the organization's health. Thus, US firms are trying to control for risk and improve corporation reputation through a proper stakeholder management (Cecil, 2010).

Even emerging countries as Brazil and South Africa are recognizing the importance of a sustainable corporate conduct and they are trying to catch up by adopting voluntary standards and by the contribution of local stock exchanges, which encourage CSR by creating sustainable indexes made of social responsible firms (Maguire, 2011).

In conclusion, as it is clear from this overview, the approaches adopted worldwide are very heterogeneous. Companies, stakeholders, governments and societies can have different sensitivities to sustainable problematics, and this may provoke different expectations and reactions to the behavior of companies. In turn, shareholders respond to non financial information disclosure and their reactions are reflected in the financial measure par excellence: stock prices.

Chapter 2

Corporate Social Responsibility and Investors' Reactions

Nowadays, CSR is a hot debate. Stakeholders have expressed a clear interest in corporate governance, requiring more attention and information about the firms' conduct. In turn, companies are trying to perform a cost-benefit analysis conductive to unveil the prospects derived from a sustainable behavior. Since the major concern for a business is to satisfy its shareholders, companies need to assess if investors have any interest in the topic.

A suitable manner to learn about stockholders' opinions is to observe the market. Indeed, any direct and indirect information regarding the performance of a company is perceived and digested differently by the investors. CSR disclosure does not get away unnoticed by shareholders. Those who have a monetary interest at stake will take close attention to the available information and they will adjust their expectations consequently.

However, the subjectivity of the CSR information can lead shareholders to dissimilar conclusions, causing an anomaly in the market.

2.1 Market Efficiency and Behavioral Finance: Getting Away from Fundamentals?

Companies and investors live together in a common place called the market. In this environment, they are able to interact, react, discover and uncover everything about themselves. Their communication mean is the price of stocks, which represents a good proxy for the performance of a company and the reactions of investors. In a continuous buying-selling process, both can achieve their happy ending, which takes the name of Efficient Market Hypothesis (EMH). In fact, according to this theory, in a traditional framework where all investors are rational and there are no frictions, the price of a security equals the discounted sum of expected future returns conditional on all information available at that time, reflecting its fundamental value. In essence, if the market is efficient, the price equals its optimal forecast. The efficiency in the market guarantees that a particular information will not be useful to gain any excess return, making the price as a fair indicator.

EMH suggests that there are three types of market efficiencies: weak, semi-strong and strong.

A weak-form efficient market is one where no change in the share price due to new information can be predicted from the analysis of historical prices and volumes, but instead those movements have the characteristics of a random walk: investors cannot beat the market through the study of past price patterns.

In the semi strong-form efficient market, prices will reflect all publicly available information, quickly digesting the publication of relevant news by adjusting the prices to a new equilibrium level. Since historical prices are public information, the market is also weak efficient.

Finally, in its strongest form, the market is efficient if it incorporates in the prices all sort of information, public and private. The current market price will quickly adjust to a new equilibrium by transactions made by the holders of different information (Fama, 1970).

In each of the three cases, the driving forces are competition and the profit motive. Investors constantly analyze information and appraise stock values in order to identify smart investments and superior gains; through this continuous process and the incessant buying-selling, prices are ensured to never differ much from their efficient value. Thus, neither a technical analysis - the study of historical prices to predict the future share value - nor a fundamental analysis - the study of financial information - helps investors to gain superior returns with respect to the market. In addition, the EMH goes along with the Rational Expectation Hypothesis (REH), postulating that any market participant can forecast prices as good as any financial model created by a financial scholar, given the available information.

Still, efficiency is proven true only if the assumptions hold and if theory fits the facts. First, EMH assumes that investors come up with rational anticipations forecasts, which implies that all participants have homogeneous expectations. Second, it predicts that all investors have same knowledge and same reactions to the available information. Profit and losses can happen only at random, since prices rotate around their true value. If this framework is accepted, the market is always in equilibrium and there is no room for discussion.

However, those assumptions appear unrealistic and simplistic. Many anomalies in the behavior of market participants cannot be explained by full rationality. A branch of literature called behavioral finance has been trying to make it clear, claiming that economic agents are far from perfectly rational, and many psychological factors might be relevant for the estimate of market prices. It is common knowledge that people differ one from another and subjectivity in their judgments is more common than objectivity. Even if in order to find the aggregate market price the attention falls on the behavior of a representative agent and behavioral biases should cancel out, there is no assurance that the agent will behave rationally. As Keynes pointed out, the psychology of an economic agent for the sake of its humanity can be easily manipulated and distorted by psychological "manias and panics", which may cause anomalies in the mainstream approach. For example, many decision heuristics, i.e. shortcuts and rule of thumbs, and a choice bracketing approach - framing decision problems more narrowly in a shorter time period with respect to a lifetime horizon - are used in the evaluation process, making the decisions deliberative and not always optimizing (Read, Loewenstein, & Rabin, 1999; Conlisk, 1996; Stracca, 2004).

Evidence of market anomalies such as underreactions and overreactions of stock prices challenge the rationality of the market and its efficiency, taking the distance from the definition of "homo economicus ". Financial markets can be thought as consisting of two types of investors, the arbitrageurs and the noise traders. The arbitrageurs have fully rational expectations stuck to the fundamentals, while noise traders are often misguided by cognitive biases. If the market is truly efficient, rational arbitrageurs play a central role, being able to arbitrage away the noise generated by the other investors and to bring the stock back to its true value.

However, according to the antagonistic version of the EMH, the Noisy Market Hypothesis, temporary shocks caused by the momentum speculators and unrelated to fundamentals, are difficult to absorb, may last for days or years and move away prices from their best estimates. Since those investors trade on noise as if it were reliable information and this noise is correlated across noise traders, they overestimate and underestimate expected returns for some periods such that their buying and selling is not randomly distributed and the noise-trader risk becomes systematic. (Siegel, 2006; Zhang, 2006).

New multidisciplinary approaches to the deviations from the rational behaviors in an efficient market have proven that investors can be very "sensitive" and they may trade on unsupported dogmas, following their hearts instead that their minds. Investor sentiments are properly the beliefs about future cash flows and probable risks that are unjustified by the economic evidence at hand (Orlitzky, 2013). The implication is that share prices are set by the interaction between rational agents and more emotional investors according to news both in the macroeconomic and the microeconomic environment, increasing the volatility of stock prices inside the market.

The subjectivity in determining the true value and the use of different models are of crucial importance for the speculation on shares. Optimism is the curse of the sentimentalists in the market. Overconfidence about oneself is a common sentiment across investors who believe to be better-than-average forecasters. If all investors overestimates their abilities in identifying relevant information and a consistent amount of news points at the same direction, they will tend to overprice the stock (Thaler, 2000; Daniel, Hirshleifer, & Subrahmanyam, 1998). Strong of their abilities, they will also rush to buy new stocks on the market, expecting to be more cunning than others and to obtain an immediate gain.

On the other hand, over a short term horizon of perhaps 1-2 months, investors tend to underreact to news, i.e. earnings announcements, and they will fully incorporate information only slowly into small parts as further news arrive - the so called Earnings Announcement Puzzle (Barberis, Shleifer, & Vishny, 1998). Furthermore, extreme branches and theories attributes anomalies in the market to one's disposition: a stream of literature suggests that the stock market reaction can derive from shifts in mood, weather, non-secular holidays and so on (Loewenstein, 1996; Hirshleifer & Shumway, 2003).

Evidence shows that investors are human in their analysis, as much as in their judgments as well as in their capacity to gather information. Since the market is not perfect and it suffers of asymmetric information, certain pieces of valuable and relevant information will arrive to some shareholders before others, causing disagreement between investors' groups. In addition, people, unlike computers, have limited attention. Hence, in their evaluation process, they will consider a small set of public news, which they find relevant. Attention-grabbing broadcasts will have a stronger impact with respect to discrete news. Even in the case in which the news could be spread simultaneously and all shareholders would equally pay attention to it, each investor would assess it through a different economic model and interpret it according to his prior knowledge. The gradual information flow along with the limited attention and heterogeneous priors will cause disagreements in the market and a departure from an objective valuation of the stock (Hong & Stein, 2007).

Consequently, rationality in the market is realistic only if bounded. Under this assumption, economic agents have to decide under three "bounding" constrains: information is limited and often unreliable on possible alternatives, human brain is able to process and evaluate information only in a limited way, and the amount of time devoted to a decision can take a limited extent. In one sentence, "the perfectly rational is the evil of actual satisfying “.

The existence of these market anomalies due to the imperfection of the human machine leaves room for testing the efficiency of the market and its true ability to interconnect investors and companies in a fair ground. If investors are not perfectly rational, homogeneous in their thoughts and in their expectations, a new stream of information may cause disarray in the market equilibrium. Since CSR has a non-financial nature, the actual absorption of information derived from CSR reports in the stock prices may be subject to psychological biases, eliciting divergent reactions among investors.

2.2 Relationship Between CSR and Financial Performance

Nowadays, companies have to face two often opposing sides: on one hand, they have the duty to maximize profits and make shareholders satisfied; on the other hand, stakeholders ask more and more attention to the role that the company has in the society. A consistent stream of literature accepts the stakeholders' theory, which embraces the philosophy that “profit making is no stranger to social constraints” when we consider a long term horizon for the business (Frederick, 2006).

However, a contrasting view clashes with this extension of the meaning of business' purpose. Milton Friedman is surely the most prominent supporter of the shareholders' theory, claiming that “business of business is business” (Friedman).

Stakeholders and shareholders cause a conflict of interest at times for the company. In fact, shareholders, who contribute in a monetary manner, might be more prone to sacrifice long term profitability for short term profits, while stakeholders, who desire the long term viability and success of the corporation, may be in favor of opposite actions. Corporate social responsible behaviors may be a source of friction between the two counterparts. Nonetheless, before formulating considerations a priori, it is necessary to investigate the nexus between corporate social responsibility and corporate performance (Becchetti, Ciciretti, Hasam, & Kobeissi, 2012).

The possible relationships between CSR and financial profitability are three. Friedman claimed a negative relationship between sustainability and profits. He argued that adopting social responsible behaviors means stockholders' money for a general social interest instead that for what it is more beneficial for the corporation. He asserted that a business should maximize its profits as far as it engages in a free competition without fraud and deception. Instead, if the business takes the burden of those social costs, it will become less efficient and in the long run, it may even hurt the society because of its acting in a way other than economic. Friedman alleged that management policies should be aligned exclusively with the interests of shareholders, because it is exactly what it is expected from the business (Friedman, 1970). Moreover, the costs and the benefits of a socially responsible performance are often out of alignment in the time: while costs are immediate, the benefits are realized more slowly (Tsoutsoura, 2004). Consequently, participating in costly CSR activities could raise prices, reduce wages, shrink profits and dividends, causing a reduction in share prices and increasing the difficulties in attracting capital. In addition, according to Reinhardt, Stavins, & Vietor (2008) shareholders may engage in litigations or they may take correcting measures, such as takeovers or closure .

However, the authors argued that evidence on sacrificing profits in favor of the society is lacking. In their opinion, firms undertake socially beneficial actions as far as those are affordable costs and contribute to the financial goals of the company in a long term horizon. Indeed, evidence shows that sustainable practices are seen as any other traditional business activity: firms carefully ponder both the costs and the benefits as meticulously as any other decision they take. It is emerging the idea that the ultimate value of shareholders is strictly linked to "maximizing the sum of various stakeholder surpluses "to attain a long term survival (Becchetti, Ciciretti, Hasam, & Kobeissi, 2012). Hence, link between CSR and shareholders' wealth maximization could be positive, reflecting the idea of "doing well, doing good ".

According to Dula (2009), CSR is a mean to create goodwill and establish a good reputation. Furthermore, the branding and reputation effects might promote a strategy of differentiation from competitors, leading to higher sales, in support of the belief that high quality intangible assets can lead to a superior performance. CSR disclosure acts as a powerful insurance against reputational damages, able to hedge risk when the company experiences an adverse event (Minor & Morgan, 2011) and reduces the risk for significant future expenses resulting from the negligence in implementing a sustainable behavior (Nuryaman, 2013).

CSR can also positively influence the performance of a company by internal policies: socially responsible firms may attract better employees and establish with them an enlightened relationship, enhancing satisfaction in the workplace, motivation and productivity. Finally, CSR may signal a superior management practice, due to the manager's attention towards key stakeholders (D'Amato, Henderson, & Florence, 2009).

Between the two extremes, the hypothesis of no particular form of relationship between CSR and corporate performance has found ground. This theory is based on two propositions: first, there are too many factors that might intervene in the association that it is hard to prove the relationship; secondly, measurement biases, misspecifications in econometrics models and the omission of important determinants might cause spurious correlation or simply bias the estimated correlation

(Waddock & Graves, 1997; McWilliams & Siegel, 2000). Additionally, the direction of causality could bring to misleading results: it may be that CSR practices cause good performance, or the other way around.

According to Waddock & Graves (1997), two contrasting views can be analyzed for the corporate social-financial performance linkage. The slack resource theory argues that a better financial situation lead to the availability of slack resources to be invested in social performance fields. Per contra, the good management theory sustains that behaving in a social responsible way improves the relationships with the key stakeholders. The point is that the simultaneousness of the relationship between the two variables conceals the true causality nexus, opening the possibility of an interactive cooperation, which falls in a virtuous cycle.

Mixed results have not strongly proven any of the three views and the discussion is much open. Beside conjectures and theorizations, empirical studies analyzing the effect of corporate social responsibility on stocks prices are required to give soundness to the hypothesis.

2.3 Analysis of Reactions of Investors to CSR

The market is a perfect observatory where to study the behavior of stockholders and companies. The reactions are captured entirely by the price and by the anomalies that those may present. Since the market participants are likely to have various views, and because of stochastic measurements and the CSR voluntary nature, social responsible activities are differently perceived and absorbed by investors. Irregularities in the information that arrives to the shareholders make it difficult to create a common judgment. Firstly, CSR suffers of information asymmetry, situation in which one party has more or better information with respect to the counterpart, causing a disparity between outsiders' and insiders' knowledge: internal management has more information on processes and outcomes related to CSR than external stakeholders. In addition, the disagreement on the definition of CSR creates frictions in the dialogues among international settings, inflating the problem of asymmetric information.

The differences across countries on the regulations on CSR disclosure, which is still largely voluntary, have several implications for the different economic agents: lack of monitoring and government oversight makes voluntary reporting an easy target to manipulation and flaw accounting data, difficult to leaf through. Investors are unable to discern the true informative part of the news from the false market signaling that companies send through CSR announcements. The difficulties in interpreting information in a rational and objective manner yield a sort of noise in the market. The dissimilar considerations create trading volume, hence more volatility in the stock prices with respect to those companies who do not disclose CSR (Orlitzky, 2013).

To mitigate the anomalies and to help investors in the analysis of environmental, social and corporate governance issues, CSR rating agencies have started to classify firms on topics related to corporate social performance and sustainable management. For example Vigeo, the European leader on non-financial analysis, publishes ratings through the year, justified by the fact that investors demand for additional information to support their decisions.

Using an event study, Cellier & Chollet (2010) showed that the announcements of CSR rating prompt an overall positive reaction in the stock market, regardless the rating, but that share prices react differently according to the elements of the CSR under consideration. Indeed, prices increase with good corporate governance practices or improvements in reputation, but decrease in case of environment and human resources matters and they are not affected by other factors. Investors seem to penalize in advance practices that could generates excessive cost with respect to benefits. CSR is desired, but to the limited extent that it does not conflict with shareholders' interests.

Flammer (2013) conducted a study for all the U.S. publicly traded companies from 1980 to 2009 and and she found that companies who report eco-friendly behaviors are subject to price increases, while investors react negatively to the announcement of eco-harmful behaviors. Moreover, the author asserts that more a social responsible behavior toward the environment is institutionalized as a norm, more eco-harmful behaviors have a negative effect on perception of the firm because firms are punished for not following the norm, and less rewards are attributed to be eco-friendly initiatives. Finally, she supported the idea that CSR has diminishing marginal returns. Thus, there may be evidence that the market is slowly adjusting to the concept of an adequate corporate social investment complementary to the profit-driven initiatives.

Nevertheless, carefulness in the assertion is much required. For example, U.S. businesses appear to have been accepting to bear economic, legal, ethical and discretionary responsibilities, embracing the idea that being socially responsible secures long run profits through a favorable public image. Instead European firms have been introducing CSR pushed by the stakeholders' pressure. Companies and countries differ in their understanding and development of CSR due to the variegate rage of social values and cultures, which is also reflected on the shareholders' expectations (Maignan & Ralston, 2002).

And besides the differences across space, there are also problems in time alignment. CSR can cause different reactions in a short term horizon and in a long term horizon. Investors may not fully comprehend the sacrifice of short term returns in favor of long-term survival strategy (Forte, 2013). Evidence is mixed and there is not a clear pattern in the reactions though.

Dula (2009) studied the magnitude and the significance of the short term financial effects on stock prices to announcements of philanthropic activity at ExxonMobil, founding a neutral reaction.

The study of Zeiner and Johansen (2013) conducted on the American market over the period 2005-2012, showed positive and significant correlation between CSR activities and abnormal returns prior to the event, which may imply that the market has learned about the news quite before it was actually implemented. Contrarily, they found a negative and significant coefficient after the CSR activity was announced. They gave three interpretations to the results. Firstly, the negative correlation may reflect the expensiveness of the CSR efforts and the burden borne by the shareholders, as well as the suspicion about the good intentions of the company: they might believe that firms take part on CSR only for publicity, returns or tax relief instead that for ethical reasons. Secondly, market players may like the thought of a company being socially responsible, whereas when it actually becomes reality they may no be able to see the benefits right away. Finally, the market may have already absorbed the news and it may be already reflected in the stock price, since American companies have a well established CSR program, and the negative returns may be essentially the consequence of the fact that the company is spending money. At the end, they suggested further researches on the actual effect of CSR projects at the date of completion, in furtherance of a proper view for the long term time span too.

Per contra, Yu, Du, & Bhattacharya (2014) argued that stand-alone CSR reports have a fundamental role in enriching the firm financial disclosure and improving information transparency to investors and other important stakeholders. Since CSR reports deliver a consistent and comprehensive vision of the firm's social behavior, CSR reports are a tool to reduce information asymmetry by expanding the knowledge of stockholders about the general conduct of the firms. Through the new information, market players can make more conscious decisions. Their research on Fortune 500 companies over the period 2005-2011 provided "strong" (as they claim!) empirical evidence on the use of CSR reports to build forecasts so that investors adjust their expectations on future performance and future risks. In addition they found a net positive correlation of the release of CSR reports and abnormal stock returns.

Clearly, a piece of the puzzle is missing and there are many limitations in the studies conducted. The question is whether there is a point of convergence for all those different results and whether there is actually a mainstream attitude. The fact that the market is dynamic and continuously evolving is remarkable: Bird et al. (2007) found that the market's attitude toward CSR has been changing over time. This thesis is meant to contribute to the current stream of literature by trying to focus on a narrow market and its characteristics in order to target an approximately homogeneous group of investors (nearly same geographical, demographic and cultural characteristics) and have more significant results. For this reason, next section will retrace studies conducted in the Italian market in order to give a framework to the research done in this paper.

2.4 Italian Market and CSR: Literature review

As far as the author's knowledge goes, literature presents few studies related to the impact of CSR in the Italian market. Fiori, Di Donato and Izzo (2007) presented one of the pioneer works on the topic, which investigated the impact of voluntary CSR reporting on the stock prices of 25 Italian listed companies during a three-year time span (2004-2006). They tried to understand whether CSR is congenial with value creation and whether it contributes to the firm performance. Their empirical results show that stock prices in the Italian market are neutral to CSR disclosure. Investors appear to be short-time oriented and at the same time blind sighted to the long term effects of a socially responsible behavior. The inefficiency of the Italian market is due to the lack of a collective interest on social and environmental concerns, which is also reflected by the limited number of CSR reports made by firms. With respect to other countries such as US, Italy seems to be a novice in valuing responsible behaviors, which results in cultural backwardness.

An improvement of the study was released in 2012, where Izzo and Di Donato

(2012) better contextualized their investigation in the Italian scenario, highlighting the flaws due to the peculiarities of the corporate governance system and the capitalism structure. The Italian scene is dominated by small-medium size companies, mostly closely held, from which it is derived a sort of inefficiency in the financial development. The preponderance of few blockholders, represented by entrepreneurial families and focused on the short-term profitability, limits the strategic role of various stakeholders, which may urge upon socially responsible practices. In this case, the empirical evidence indicates that Italian investors attribute a negative premium to CSR activities, especially to environmental efforts. CSR policies are alleged as avoidable expenses in conflict with the profit motive, meant only to improve the private reputation of firms' insiders.

A further contribution to the research was given by Cardamone, Carnevale, and Giunta (2012), who tested the influence of CSR report publication on stock prices among a sample of companies quoted on the Milan Stock Market, including a control group which did not report. They validated the hypothesis of Izzo and Di Donato (2012), demonstrating a significant negative correlation between publication of social reports and stock prices. Results suggest that investors see the allocation of resources (financial and human) on activities other than those related to core business operations as diverging from remunerative means, thus detrimental to their own interests.

However, market players do recognize the CSR reports as value-relevant. In their study, Cardamone, Carnevale and Giunta found that the impact of book value per share (BPS) on stock price is higher for companies that publish a report. This implies that publication of a CSR report, which discloses figures regarding specific present and planned investments and existing and potential debts payable, offers investors more information about the level of safety related to each single share after all debts are paid accordingly.

The small attention to the Italian scene, the shortage of empirical studies and the pioneer attempts to fill the gap are no sufficient to state a final inference. The newness of the interest in social responsible activities as well as the cultural background based on the shareholders' model contributes to a disparity with respect to more responsive countries: those are moving to a stakeholders' orientation, which appreciates the value of social investments over the long run. The increasing relevance of CSR issues in the scientific field requires awareness and a proper reaction in order to catch up with the globalization and to guarantee the livelihood of companies in the international contest (Forte, 2013). The concept of CSR is very dynamic and the general understanding of its value is rapidly evolving over time, which may imply a change in the attitude of investors over the importance of the ethical responsibilities of companies. A dynamic analysis is required to keep up the pace of the continuous variation of investors' expectations, with the aim of understanding if the market will efficiently adjust to this new flow of non-financial, still remarkable, information.

Chapter 3

Empirical Evidence: an Event Study applied to the Italian Market

3.1 Hypothesis Formulation: The Italian Oxymor

The link between CSR practices and investors' reaction is covered by a plethora of simultaneous factors. It appears that the cultural background and national system play a major role in determining the attitude of shareholders.

The Italian economy is characterized by a strong government intervention and a widespread diffusion of businesses controlled by the state. The stock market plays a marginal role, accounting for 29% of the Italian GDP in 2013 (Il Sole 24 Ore, 2013). In a context dominated by SMEs, Italian firms have always largely adopted a family business approach, focused on maintaining both the ownership and the control of the company. The CSR practices can be defined as implicit, through norms or rules imposed on companies (Matten & Moon, 2008). The attempts toward the implementation of CSR can be considered as a response to the institutions rather than a strategic move for the firms. The public government supports and promotes initiatives and regulations both at national and regional level, trying to incentivize and disseminate the concept of social responsibility. Hence, the major driver of the avant-garde of CSR in Italy is related to public policies rather than to an ethical necessity (Habisch, Patelli, Pedrini, & Schwartz, 2011).

As a consequence, the question that naturally arises is whether there is a conflict of interest between stakeholders and shareholders in the Italian scene. If shareholders do not price CSR disclosure as value added to their stocks, the company is probably going against its owners' will and it may suffer damages. Moreover, since the Italian financial market is relatively marginal, information asymmetry may not allow investors to properly absorb the news in stock prices, converging back to an efficient equilibrium. Indeed, as found in previous studies, the Italian market has proven not to react positively to the implementation of social responsible corporate policies, rather investors have perceived malice in social remarkable decisions of the managerial class: managers may act in their personal interest pursuing a good personal reputation, using the company as a showcase to display civic responsibility (Izzo & Di Donato, 2012).

This thesis is meant to be a continuum of the previous works, bringing a new evidence to the existing literature. Taking a sample of 28 companies listed in the Milan Stock Exchange, it testes the reaction of Italian investors to the release of the first CSR report in the time span that goes from 2001 to 2013. This paper presumes that the Italian culture and background has not been subject to radical changes and that investors still evaluate information on a short term horizon: even if time has passed, it might be possible that the market cannot see the long run advantages of a social responsible behavior for corporations - i.e. long-run reputation, outcomes of environmental-oriented projects, shared culture of social policies.

On the other part, CSR has become more popular by the years and the public has been familiarizing with the concept. The evolution and the promotion of such practices may have possibly changed the expectations and the receptivity of shareholders, who might have adapted to the new trend that attributes to the corporation onus and duties toward the community. This consideration opens the possibility of a shift in the orientation of stockholders, making them conscious of the implication of a sustainable behavior for the company's performance. In turn, investors may be now able to reflect CSR information on stock prices in accordance with the Efficient Market Hypothesis.

Considering that, this study could unveil a development of the market and open the discussion to further researches.

3.2 Data

In order to perform the empirical study, a sample of 28 companies listed on the Milan Stock Exchange has been drawn. The choice and narrowness of the sample is not random, rather it is dictated by some restrictions. Firstly, in the Italian context it is absent a complete database providing information on firms' behalf about social responsibility and sustainability practices. Nevertheless, it is acknowledged that some attempts are under development. The website of the Italian Stock Exchange presents a section dedicated to ethical finance, publishing articles and providing information on ethical indexes and funds (Borsa Italiana). More relevant, an online database (Biblioteca Bilancio Sociale) was established in the autumn 2014, with the purpose of collecting the sustainability reports of European and Italian firms: the website is thought as an intermediary between the society and businesses, favoring communication between the parties (Bilanciosociale.net, 2014). At time of this thesis, none of the instruments available has been helpful nor utilized.

The author of this thesis herself collected information: the names of companies disclosing CSR reports were extracted from the 6th CSR Online Award (Lundquisit, 2014) and from records provided by Maria Federica Izzo.

From an initial list, each company was analyzed on the basis of two criteria. Initially, it was checked if the companies were listed in the Milan Stock Exchange; if they respected this requirement, each of their website was examined. The archive of sustainability reports was found on the sustainability section of each website. From there, the first CSR report was taken. The decision to use the first CSR available online as a proxy for the first release to the public is based on the assumption that information has to be accessible to everyone to become common knowledge. The online disclosure puts all the investors on the same ground, guaranteeing the free flow of additional information to everyone.

Each initial report was analyzed and the month and the year of publication were extracted. When the report did not provide the publication date, the date of release on web was used. In some cases, companies were individually contacted by email to have more precise data. In case of lack of dates, the company was dropped from the sample. Instead, financial data for the companies were retrieved from Yahoo Finance. After the selection, all companies presenting insufficient data were excluded, narrowing the sample from 54 to 28 elements.

Findings are summarized in the table below, in order to provide transparency as well as a base for further researches:

Table 1: ***Date of first online CSR report for the sample of Italian listed companies from 2001 to 2013***

Companies	Month	Year	Companies	Month	Year
Gruppo Mps	June	2001	*Fiat Chrysler Automobiles*	June	2005
Telecom	October	2001	*Autostrade per l'Italia*	March	2006
Unicredit	April	2001	*Pirelli*	April	2006
Buzzi Unicem	July	2002	*Terna*	November	2006
Indesit	June	2002	*Eni*	May	2007
Italcementi	June	2002	*Banca Popolare Italia*	April	2008
Acea	October	2003	*A2A*	May	2009
Enel	May	2003	*Gtech*	July	2009
Intesa San Paolo	May	2003	*Piaggio*	November	2009
Salini- Impregilo	May	2003	*Ansaldo sts*	April	2010
Snam	March	2003	*Prysmian*	May	2010
Assicurazioni Generali	September	2005	*Finmeccanica*	June	2011
Autogrill	January	2005	*Mondadori*	June	2012
Erg	May	2005	*Yoox*	April	2013

Source: ***Own Elaboration***

3.3 Methodology

3.3.1 A Brief Introduction

Frequently in finance, economists want to estimate what effect has the occurrence of an event on the market. An event study tries to examine the impact of a specific happening on the behavior of stock prices, studying the magnitude and the significance of it. In this way, it is possible to investigate if investors can exploit the opportunity to make profits out of it. This methodology actually testes the efficiency of the market, which claims that all information should be immediately absorbed in the share prices.

First of all, it is necessary to identify the occurrence and the period in which the event takes place. The time span in which the stock prices may be affected by the event, showing abnormal returns, is commonly known as event window. It is also necessary to establish an estimation window, which covers the period prior to the event window and it is used to model the normal return for the stocks. Generally, closing prices are used to calculate the actual returns and the estimated returns.

In this context, the described methodology seems to be the best fit to conduct the analysis. The papers of MacKinlay (1997) and Kotari & Warner (2006) were used as guideline to construct the design of the empirical investigation. This thesis considers the publication of the first CSR report as the event under investigation. Since the exact day of release was not available, the event study is conducted on a monthly basis. Each step will be described thoroughly.

3.3.2 Application

In order to conduct the event study, all companies necessitate of comparability: since the dates of the first CSR report are different across the sample, the month of the event is considered as time 0 for all the companies. The event window is chosen to be from 12 months before the release to 24 months after, covering a time span of approximately 3 years. This allows to effectively observe the reactions of investors. Monthly closing prices, adjusted for dividends, are taken in order to calculate the actual returns for each stock, using the formula:

$$r_{it} = ln(P_{it}) - ln(P_{i(t-1)}) \tag{1}$$

r_{it}: *actual return on stock i at time*

P_i: *adjusted closing price of the stock*

Instead, for modeling the expected return unconditional to the event, the market model is applied. The market model underlies the assumption that there is a constant linear relation between the market returns and the stock returns. Using the returns in the estimation window, the intercept, the slope and the error between the market and the security are calculated.

Due to lack of financial data, the estimation window uses daily closing prices for almost 200 days before the event window (and 150 days in a couple of cases, when no other data were available), accounting for almost 7 months ex ante. Historical prices for pioneer companies that release the report in 2001 are not available before 2000; hence, a second-best alternative is chosen to overcome the hurdle. The use of daily prices is deemed to be acceptable (even though not fully precise) because of the assumption of a constant linear relationship, which should not be significantly different when using daily instead that monthly prices.

For the market, the FTSE Mib is chosen as proxy to estimate the returns: indeed, this index is considered as the most significant in the Italian Stock Market.

After estimating the returns using equation 1, the daily returns on the market are regressed on the daily returns for each stock in the context of the estimation window, applying the market model described as:

$$r_i = \alpha + \beta r_m + \varepsilon \tag{2}$$

r_i: *daily return for stock i*

r_m: *return on the market*

ε: *error term*

From the market model, α , β and $\varepsilon$are taken and the monthly returns in the event window for each security are estimated setting the intercept, the slope and the error term as fixed, and plugging the monthly market returns calculated for the event window in the equation:

$$E(r_{it}) = \alpha + \beta r_{mt} + \varepsilon \tag{3}$$

$E(r_{it})$: *estimated returns at month t for stock i*

α: *constant intercept calculated with the market model*

β: *constant slope calculated with the market model*

r_{mt}: *return on the market at month t*

ε: *error term calculated with the market model*

In conclusion, at the end of this phase, an estimation of the securities' returns and the observed returns are available for the event window (-12,+24). Estimates are inferred using the coefficients and the error terms derived from the steady linear relationship between every stock's daily returns and daily market returns on the historical prices available prior than the 12 months preceding the event.

Given those data, in order to evaluate the impact of the first CSR announcement, abnormal returns over the event window are calculated. Abnormal returns are described as the difference between the actual ex post returns and the normal expected returns: in this case, those are the direct measure of the variation in shareholder wealth associated with the first CSR report.

For each stock i:

$$AR_{it} = r_{it} - E(r_{it}) \tag{4}$$

AR_{it}: *abnormal return relative to the event at time t for stock i*

r_{it}: *actual return on stock i at time*

$E(r_{it})$: *estimated returns at month t for stock i*

After obtaining the necessary information for each stock, the abnormal returns are aggregated with the purpose of inferring the overall impact of the event. The aggregation can be performed on two dimensions: across time or across firms. This thesis conducts both aggregation in three different phases.

Phase 1: Cross-Sectional Aggregation

Aggregation across companies allows to analyze all abnormal returns at time t for the sample at once. It is important to verify that those abnormal returns are cross-sectionally uncorrelated, and thus there is no clustering. For the considered sample, the no-correlation requirement is assumed to hold because of the randomness of the selection - firms cover different sectors and industries - and the differences on the date of the event. Granted that, it is tested whether the mean abnormal return is equal to zero, which implies that the event has no impact on the behavior of returns across companies at time t; if null hypothesis is rejected, the event is conductive to anomalies in the market. Thus, the hypothesis can be formulated as:

H_0:the average abnormal return is equal to zero

H_1:the average abnormal return is different from zero

Where the aggregate abnormal return at time t is defined as:

$$AAR_t = \frac{1}{N} \sum_{i=1}^{N} AR_{it} \tag{5}$$

$$AAR_t\text{: } \textit{Abnormal average return at time } t$$

$$AR_{it}\text{: } \textit{abnormal return relative to the event at time } t \textit{ for stock } i$$

To test the null hypothesis, a test statistic is computed and compared to its known distribution. The randomness of the t-test is given by the error in measuring abnormal returns. This error is generated by the imprecision in estimating normal returns and by the simultaneous intervention of factors unrelated to the event on the individual actual returns (Kotari & Warner, 2006).

The t-test is actually computed as:

$$t - statistic_{AAR_t} = \sqrt{N}\frac{AAR_t}{\sigma_{AAR_t}} \tag{6}$$

where σ_{AAR_t} is the standard deviation across firms at time t :

$$\sigma_{AAR_t} = \sqrt{\tfrac{1}{N-1}\sum_{i=1}^{N}(AR_{it} - AAR_t)^2} \tag{7}$$

Phase 2: Cross-Sectional and Time-Series Aggregation

After computing the mean abnormal returns for each time t, it is possible to sum all of them over time in the event window. In this way, it can be tested if the aggregate abnormal returns for periods around the event are equal to zero. Indeed, if the event is somewhat foreseen, abnormal returns should appear ex ante. On the contrary, questioning the behavior of post-event returns can bring information on the adjustments to the news and the speed of these adjustments, supplying fertile ground for deductions on market efficiency: indeed systematic non-zero abnormal returns are inconsistent with efficiency.

The cumulative aggregate abnormal return (CAAR) is a useful statistics in unveiling the aggregate effect of abnormal returns, especially because it allows to consider not only the consequences of the event itself, but also its influences over time. The calculation of such statistics is closely related to the calculation of the AAR.

Firstly, the null hypothesis is set:

H_0:cumulative average abnormal returns are equal to zero

H_1:cumulative average abnormal returns are different from zero

Then, the CAAR that goes from time t_1 to t_2 is computed as:

$$CAAR(t_1, t_2) = \tfrac{1}{N} \textstyle\sum_{t=t_1}^{t_2} AAR_t \tag{8}$$

$CAAR(t_1, t_2)$: *Cumulative abnormal average return from* t_1 *to* t_2

AAR_t: *Abnormal average return at time t*

To test the null hypothesis, the t-statistic is formulated as:

$$t - statistic_{CAAR(t_1,t_2)} = \sqrt{N}\frac{CAAR(t_1, t_2)}{\sigma_{CAAR(t_1,t_2)}} \tag{9}$$

where σ_{AAR_t} is the standard deviation across firms at time t :

$$\sigma_{CAAR(t_1,t_2)} = \sqrt{\tfrac{1}{N-1} \textstyle\sum_{i=1}^{N}(AAR_t - CAAR(t_1, t_2))^2} \tag{10}$$

In the context of this thesis, the CAAR is performed over four different time spans: from -12 to +24, covering the overall event window; from -3 to 3 covering a short term period of 6 months; from -12 to 12 to cover exactly one year before and one year after the release; from 0 to +24 covering the interval consecutive to the publication of the CSR report (CAAR ex post).

Phase 3: Time-Series Aggregation

It is also possible to calculate the aggregation through time for an individual security. Cumulative Abnormal Returns (CAR) is defined as the sum of the differences between expected and actual returns. The analysis is very similar to the CAAR one, but it investigates the impact of the event under consideration for a single firm, showing the reaction of investors in each specific case.

For each company i:

$$CAR_i(t_1, t_2) = \frac{1}{N} \sum_{t=t_1}^{t_2} AR_{it} \tag{11}$$

$CAR_i(t_1, t_2)$: *Cumulative abnormal return from t_1 to t_2 for stock i*

AR_{it}: *Abnormal return at time t for stock i*

Cumulative abnormal returns are calculated and plotted for each stock in the sample over the whole event window (-12,24) to have a more in depth view of the market.

Findings, results and corollaries will be discussed in the next section.

3.4 Findings

At the beginning of this theoretical chapter, it has been appraised that the Italian market valuates negatively the initiative of reporting the sustainability of firms. If the supposition is correct, the two null hypotheses stated in the previous section should be rejected. Table 2 presents the results of the calculation of aggregate abnormal returns.

Table 2: AAR_t ***analysis***

Time (t)	AAR t	t-statistic	Time (t)	AAR t	t-statistic
24	-0.029141319	-1.87426	5	-0.052506168	-1.84142
23	-0.018894471	-1.16448	4	-0.003626765	-0.24307
22	-0.02411593	-1.5632	3	-0.011600743	-0.76837
21	-0.002663537	-0.15041	2	-0.02056834	-1.35917
20	0.001988154	0.122524	1	-0.008634786	-0.36107
19	-0.009499652	-0.62442	0	0.009520239	0.650027
18	-0.026746217	-1.84424	-1	-0.158362211	-1.08771
17	0.01070612	0.905881	-2	-0.026961517	-2.1576
16	-0.009448055	-0.41306	-3	-0.007559367	-0.40004
15	-0.0191728	-0.79818	-4	-0.012109775	-0.90089
14	-0.050933569	-2.04034	-5	-0.019389902	-1.57468
13	-0.007375257	-0.52071	-6	0.006301868	0.342554
12	-0.000679947	-0.03116	-7	-0.01908152	-1.11312
11	-0.010743506	-0.62191	-8	-0.060153804	-2.38486
10	-0.003152076	-0.15705	-9	-0.008661072	-0.33639
9	-0.016281023	-1.01318	-10	-0.044358546	-2.2305
8	-0.010162836	-0.44858	-11	-0.030959731	-2.39354
7	-0.033589959	-1.77607	-12	-0.005273904	-1.9029
6	-0.000901258	-0.04754			

Significant at 90%	Significant at 95%	Significant at 99%

Source: ***Own Elaboration***

Table 2 shows prevalently negative abnormal returns but most of the times they are insignificant. It is interesting to note when negative returns are significant: as it can be observed, the null hypothesis is prevalently rejected at 95% significance level in the months prior to the release of the first CSR (at time -11,-10,-8 and -2). On the contrary, H0 cannot be rejected at the time of publication and abnormal returns are only sporadically significant - and generally at 90% significance level - in the period after the publication. These results could be explained by a leak of information previous to the actual date of announcement: investors might be actually aware ex ante of the intentions of the companies and negatively react to their decisions.

Instead, the insignificance of the abnormal returns after the news may be due to an efficient arbitrage of the abnormal returns: the additional information provided by CSR reports could have been already incorporated in the stock prices at time of release.

The subsequent significant results (at time 5, 7, 14, 18 and 24) may be explained by the continuation of CSR practices and by negative reactions from investors to the announcement or actual publication of further CSR reports. It is notable that there is no significant positive result: it means that either investors immediately include the news in the stock price, or they respond negatively to the intention of the company but the market is able to quickly absorb the news, or even that stockholders are neutral to sustainability issues.

Consequently, it is possible to investigate if the market is de facto efficient.

In order to test efficiency, the null hypothesis of zero cumulative absolute returns needs to be tested.

Table 3: ***CAAR(t_1,t_2) analysis***

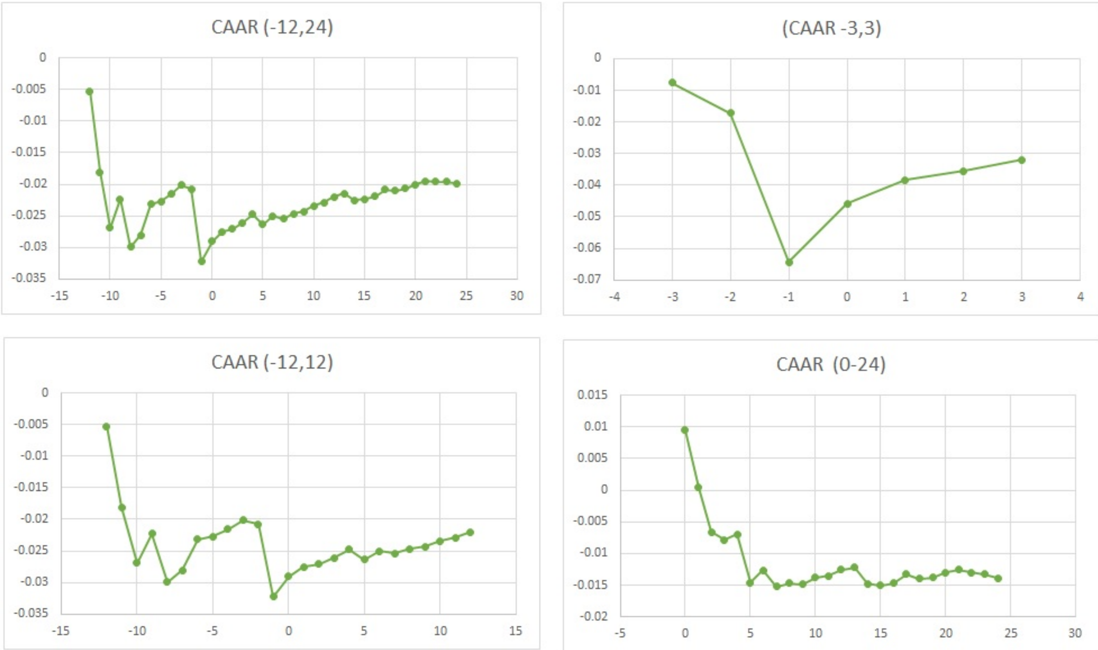
	CAAR(t_1,t_2)	t- statistic
Total (-12;24)	-0.019859275	-4.1997
Ex post (0;24)	-0.013928948	-4.58376
CAAR (-3,3)	-0.059693301	**-2.45823**
CAAR (-12,12)	-0.021979866	-3.3089

Significant at 90%	Significant at 95%	Significant at 99%

Source: ***Own Elaboration***

Table 3 shows the results for the four CAAR computed: the total (-12, 24), the ex post (0,24), the CAAR (-3,3) and the CAAR (-12,12). All four scenarios present negative and significant outcomes. The null hypothesis can be rejected at 99% significance level in the three cases, and at 95% significance level in the shortest event window, proving that the market experiences abnormal returns that are not random. To study the behavior of the CAARs, the four scenario are plotted.

Figure 1: *CAAR*(t_1,t_2) *on the event window time span*



Source: *Own Elaboration*

As shown in Figure 1, investors generally react to the release of the first CSR report as if it was a bad news. The negative movement in the curves previous to the month of the event demonstrate that not only investors are aware of the engagement of resources to sustainable aims, but also they disapprove the intentions of the companies to engage in CSR reporting. The reaction appears quite strong, displaying a sharp decreases prior to the actual event. Evidence proves that investors recognize the decision to shift toward a more sustainable-oriented strategy as conflicting with their interests, pointing out their disapproval toward the new allocation of resources. In accordance with Friedman (1970, September 13rd), Italian investors consider CSR reports unnecessary, distorting the attention from the core activity of a company: making profits.

Nonetheless, after the event date, the curves completely changes its behavior, becoming almost flat. It means that abnormal returns ex post are zero on average and that, as the Efficient Market Hypothesis predicts, all the information related to

CSR is reflected into stock prices when information becomes available to everyone.

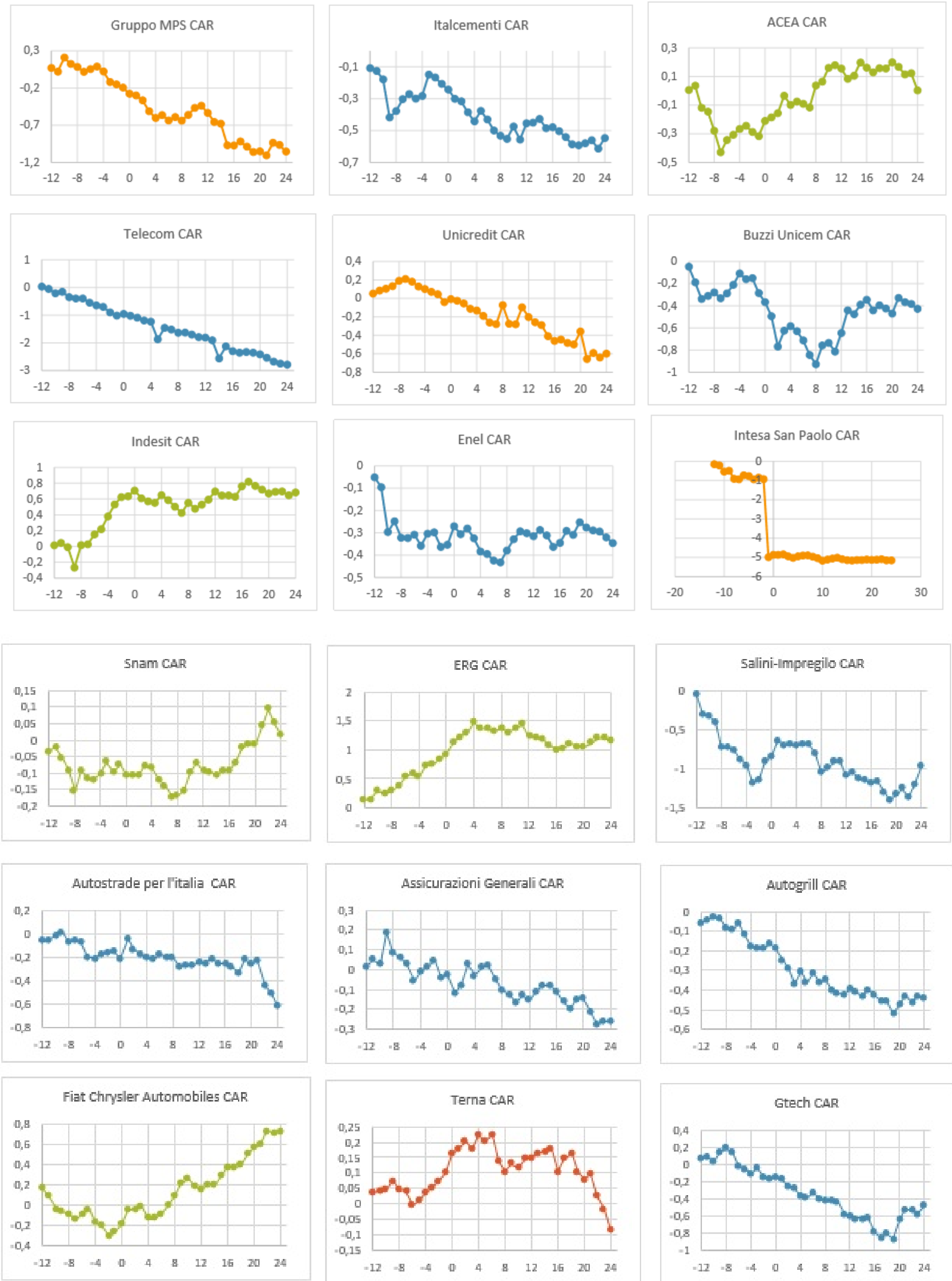
The ex post CAAR (0, 24) clearly exhibits the flatness and steadiness of abnormal returns. Still, the other three graphs show a sort of behavioral bias: the slight upward trend after the event could indicate that investors might have overreacted to the news and that stock prices tend to revert back the event effect.

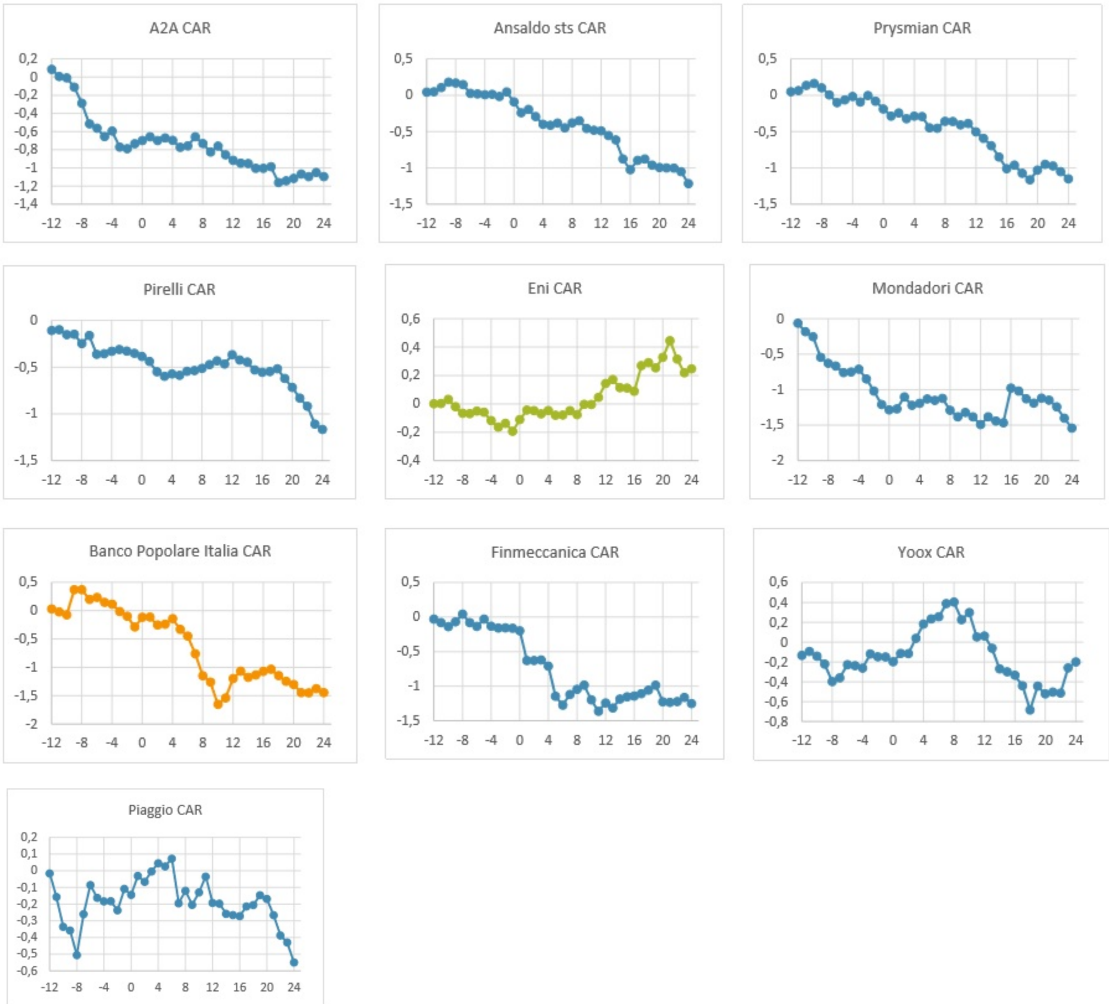
In conclusion, the graphs demonstrate that shareholders keep perceiving the news negatively ex ante, but when CSR information is available to everyone, it is incorporated in the stock prices. Since ex post cumulative aggregate abnormal returns average around zero, showing an almost constant value for the CAAR curve afterwards, the market can be declared efficient on average.

Thus, the empirical data reported in this thesis adjoin previous studies, supporting the idea that Italian shareholders do not feel the need of having the additional non-financial information provided by sustainable reports, being unwilling to take the burden of such costs, but it shows that the market actually understand and digest the news when it is public.

Yet, those conclusion are drawn considering the general situation on average. Instead, it is interesting to closely observe the cumulative abnormal returns (CAR) for each stocks to test further the assertion of an efficient market. The graphs for each company are shown below:

Figure 2: *Graphs of CAR for each company*





Source: ***Own Elaboration***

As shown in Figure 2, investors mostly react negatively to CSR reporting, and either the market requires time to adjust to the new information flow, or it is not able to incorporate the information in the stock price. It is interesting to note that in few cases (ACEA, Snam, Erg, Eni, Indesit and Fiat Crysler Automobiles) shareholders react positively to CSR disclosure. Those companies (beside Indesit) are all operating in sectors related to the environment (energy, gas, utilities and automobile sectors), thus CSR reports may provide useful and interesting information additional to financial data. In this case, CSR could represent a strategic tool able to enhance reputation and investors could perceive social responsible reports as expenses related to the core corporate activities. In fact, in the case of banks

(Gruppo MPS, Unicredit and Banco Popolare Italia), which are companies that do not operate in sectors related to environmental or social issues, stockholders clearly show negative reactions: this supports the hypothesis that investors recognize CSR reporting as an avoidable expense, unless social responsible practices are in line with the core competences of the company. Intesa San Paolo makes a case on its own: the publication online of the first CSR report (May 2003) is simultaneous to a stock split (April 2003), which biases any sort of inference that can be drawn.

However, those reactions are not systematic among industries: for instance, abnormal returns for A2A, which operates in the sector of gas, water and electricity distribution, indicate a negative reaction to the publication of the CSR report, while Enel's performance seems to be unaffected by the news.

Moreover, shareholders of Terna and Buzzi Unicem show opposite attitudes. In the case of Terna, which operates in the electric energy sector, investors seems to positively react ex ante, incorporating the information in stock price afterwards. Per contra, Buzzi Unicem, which produces cement, construction aggregate and concrete, displays a very sharp decrease in CAR before the event, and an absorption of the shock in the months following the event, with upward adjustments after the time 4.

In conclusion, evidence does not allowed to reject the idea that CSR initiatives are primarily driven by government intervention instead than being voluntary practices for the sake of ethical or strategic motivations. According to the mixed results, a shared culture of corporate responsibility toward the common wellbeing seems far from being embraced.

3.5 "Let's assume": a Fairytale for Market Players

"Let's assume " is the most loved idiom by economists worldwide. Since the author of this thesis is graduate-to-be in Economics, food for thoughts is provided to the readers.

Let's assume that the Italian market undervalues the significance of additional information regarding firms' corporate social responsibility, due to the common investors' sentiments towards sustainable issues. And let's consider another market, for example in the US, in which investors alternately add a premium on the stock prices with respect to the disclosure of CSR figures. If a company quoted in both markets exists, CSR reporting could represent a great opportunity to arbitrage and make a profit out of the diversity in point of views and shared perspectives. A smart investor, neutral to the biases caused by financial sentimentalism, would buy the stock in the Italian market and sell it back in the US market for a higher price, exploiting the difference in evaluations.

The story suggests that differences across market participants and behavioral biases could be exploited for pecuniary stances. In this case, cross-countries dissimilarities could lead to gains.

Unfortunately, empirical investigation of such a theory is beyond the purpose of this thesis, although it could be a fertile ground for new cross-countries searches on CSR perception.

3.6 Limitations

Unfortunately, the empirical results previously discussed suffer of several limitations. First of all, the narrowness of the sample: a bigger representative group could have brought sounder evidence to the study.

Secondly, the imperfections and the incompleteness of the data retrieved on CSR reports undermines the considerations drawn. It is suggested to the companies to give a precise date in their reports, opening the possibility of more meticulous analysis in the future; such a small piece of information could determine the difference in the empirical studies.

Additionally, the availability of CSR reports in the web has been considered sufficient for a common knowledge and the understanding of sustainable principles; however, the difficulties noticed during the research lead to conclude that information asymmetry is persistent across investors. The development of a CSR database would be precious to all the stakeholders, included students and scholars willing to investigate the phenomenon.

Furthermore, the decision of using an event study may have brought along disadvantages: the choice of the event and the estimation windows, the accuracy of historical stock prices, precision in event dates and the selection of an appropriate model to estimate normal returns are at the base of a consistent research. Results are strongly dependent on the structure of the analysis and on the design of the periods; if significant factors are not taken into account, evidence may lose strength. For example, there may be inverse causality in the relationship between CSR and firm's performance, problem that is not considered in this study. In addition, many other determinants (financial factors, economic shocks, corporate policies, bad news etc.) may be simultaneous with the publication of the first CSR report. Cautiousness in the assertions is strongly required with this type of analysis.

Finally, limitations in the knowledge and imperfections in the decision making process of human beings are considered as major determinants of the results. For this reason, the findings of this thesis are presented with the awareness of the fallacy of the human reasoning, but with the certainty of a strong literature support and an accurate assessment of the empirical calculations.

Conclusion

Corporate Social Responsibility has been influencing financial markets because of the stream of new information that it brings to shareholders. Due to its non-financial nature, mixed results have been found relative to the impact that it has on firms' performance. In particular, cross-countries differences have yielded contradictory prospects and deductions.

The aim of this thesis has been to investigate the reactions of Italian investors to the publication of CSR reports, to the extent of having a clearer picture on the position that Italy covers in the international debate. Taking a sample of 28 Italian listed companies reporting CSR activities for the first time in the time span 2001-2013, an event study has been conducted to observe the effect of the publication of the first CSR report on stock prices.

At glance, evidence shows that the decision of engaging in CSR reporting leads companies to have negative abnormal returns, in accordance with the existing literature. Indeed, previous studies found a significant negative correlation between firms' performances and the publication of sustainable reports, which implies that Italian investors perceive CSR as a superfluous expense (Izzo & Di Donato, 2012; Cardamone, Carnevale, and Giunta, 2012). However, the average abnormal returns calculated across firms are significant only in few cases, mostly in the months prior to the date of publication. Those results indicate that shareholders acquire knowledge about the intention of companies to participate in sustainable practices before the actual implementation, expressing their disapproval by reacting negatively in the stock market.

On the other hand, when CSR reports are released, market participants adjust their expectations and they incorporate the news in the stock prices, as the Efficient Market Hypothesis would suggest. Indeed, the analysis of the cumulative abnormal average returns (CAAR) proves that the ex post average abnormal returns are randomly distributed and even out at a zero mean, which implies that the Italian market is efficient on average. This finding is quite interesting because it might indicates an improvement in the investors' abilities to digest non-financial information related to CSR: in fact, previous researches asserted anomalies and frictions in the market caused by the disclosure of social responsible practices. Hence, Italian shareholders seem to be currently familiarizing with the idea of a corporate social responsible behavior complementary to the profit-maximization attitude, keeping pace with the international scene.

Yet, a closer analysis to the cumulative abnormal returns of each company presents assorted results. In general shareholders respond negatively to the firms' intention to employ resources in CSR projects, consistently to the aforementioned findings, but they have different reactions in the post-event months. Comprehensively, the Italian market is either able to slowly adjust to the stream of news or it exhibits negative abnormal returns, especially in the months close to the event. Still, in few cases, stock prices are positively influenced by the additional information. Those exceptions represent companies operating in sectors related to the environment (i.e. gas, energy, etc.), for which the disclosure of sustainable matters is in line with the corporate core competences. In those sectors, the additional information provided by the CSR reports is valuable for shareholders, who may use it to have a more complete perspective of the firms' conduct. CSR assumes a strategic connotation: it becomes a tool to increase trust and reputation on the eyes of the public, which may be conducive to higher profits.

Instead, companies that operate in sectors unrelated to sustainable issues (i.e.

banks) are penalized by the publication of CSR reports. In those cases, social responsible reports do not offer supplementary valuable information for investors, thus they are considered as a misallocation of resources. This is also in accordance with the decision of Izzo and Di Donato (2012) to drop banks from their sample in their empirical study: the authors claimed that the banks' core business and their risk profile could have distorted their results.

Nonetheless, investors' perceptions are not homogeneous and their reactions are not systematic: similar companies may adduce very dissimilar evidence. For instance, even though many companies in the sample operate in the energy sector, the heterogeneity in the behavior of abnormal returns lead to mixed inferences. The assortment of points of view also depends on the quality of the information disclosed: sustainable reports are very flexible and variegated in their drafts, which makes difficult comparability and accountability. The subjectivity of CSR reports in accordance with many other factors that influence the market, both in the macroeconomic and the microeconomic settings, do not allow to isolate completely the effect of CSR and to understand the true opinion of market agents.

Even so, this thesis claims that, albeit the market is efficient on average, fragmentary results across firms bring to the conclusion that Italian investors are still unable to quickly absorb CSR information. A common agreement on CSR valuation has not been found yet, but the market seems to be slowly adjusting. Investors begin to understand non-financial news derived from CSR reports, despite their negative perception of social responsible practices.

Even though this dissertation suffers of many limitations, the choice of investigating the Italian situation and the application of such a methodology give originality to the work. Since there exists only a small portion of the literature on CSR concerning the Italian case and none of the papers has used an event study, this thesis could bring value added to the current researches. The evidence found paves the way to many investigations.

Further research could try to gather a larger sample and to investigate the phenomenon on a broader scale. Moreover, future studies could analyze the investors' reactions to CSR, taking into account the simultaneous causality of firm performance and sustainable actions as well as the other external influences.

Ultimately, a qualitative evaluation of CSR reports could make an important contribution to the literature, unveiling the concealed linkages between the company's value and sustainability.

Bibliography

[1] Afsharipour, A., & Rana, S. (2014). *The Emergence of New Corporate Social Responsibility Regimes in China and India*. UC Davis Business Law Journal, 14(2), pp. 175-230.

[2] Babiak, K., & Trendafi, S. (2010). *CSR and Environmental Responsibility: Motives and Pressures to Adopt Green Management Practices*. Corporate Social Responsibility and Environmental Management, 18 (1), pp. 11-24

[3] Baden, D. A., & Harwood, I. A. (2010). *Corporate Social Responsibility on trial: a panacea or fundamentally flawed concept*. In, British Academy of Management Conference 2010, Sheffield, GB, 14 - 16 Sep 2010, 5 pp.

[4] Barberis, N., Shleifer, A., & Vishny, R. (1998). *A model of investor sentiment*. Journal of Financial Economics, 49, pp. 307-343.

[5] Becchetti, L., Ciciretti, R., Hasam, I., & Kobeissi, N. (2012). *Corporate social responsibility and shareholders' value*. Journal of Business Research, 65, pp. 1628-1635.

[6] Bethel, U. I. (2012). *Compulsory Regulation of CSR: A Case Study of Nigeria.* Journal of Politics and Law, 5(2), pp. 68-81.

[7] Bilanciosociale.net. (2014, November 11th). *È nata la prima Biblioteca del Bilancio Sociale.* Retrieved from Bilanciosociale.net: http://www.bilanciosociale.net/nata-prima-biblioteca-bilancio-sociale/

[8] Bird, R., Hall, A. D., Momentè, F., & Reggiani, F. (2007). *What Corporate Social Responsibility Activities are Valued by the Market?* Journal of Business Ethics, 76(2), pp. 189-206.

[9] Bono, A. F. (2006). *Book Review: Corporation, be good! The story of corporate social responsibility.* Business and Society Review, 111 (2), pp. 235 - 240

[10] Borsa Italiana (n.d.). *Finanza Etica.* Retrieved from Borsa Italiana: http://www.borsaitaliana.it/notizie/finanza-etica/finanza-etica/finanza-etica.htm

[11] Bowen, H. (1953). *Social Responsibilities of the Businessman.* New York: Harper.

[12] Bratton, W.W. (2002). *Enron and the Dark Side of the Shareholder Value.* Tulane Law Review, 76, pp. 1275-1362

[13] Burke, L. & Logsdon, J.M. (1996). *How Corporate Social Responsibility Pays Off.* Long Range Planning, 29(4), pp. 495-503

[14] Campbell, J. (2006). I*nstitutional Analysis and the Paradox of Corporate Social Responsibility.* American Behavioral Scientist, 49(7), pp. 925-938.

[15] Cardamone, C., Carnevale, C., & F. Giunta (2012). *The value relevance of social reporting: evidence from listed Italian companies.* Journal of Applied Accounting Research, 13 (3), pp. 255 - 269

[16] Carroll, A.B. (1991) T*he pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders.* Business Horizons, 34 (4), pp. 39-48

[17] Carroll, A.B. (2008). *A history of corporate social responsibility: Concepts and practices.* Oxford Handbooks Online. Retrieved from

http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199211593.001.0001/oxfordhb-9780199211593-e-002

[18] Carroll, A.B., & Shabana, K.M. (2010). *The Business Case for Corporate Social Responsibility: A Review of Concepts*, Research and Practice. International Journal of Management Reviews, 12, pp. 85-105.

[19] Caulkin, S. (2002, April 7th). *Good Thinking, Bad Practice.* The Guardian. Retrieved from http://www.theguardian.com/ business/2002/apr/07/ madeleinebunting.theobserver

[20] Cecil, L. (2010). *Corporate Social Responsibility Reporting in the United States.* McNair Scholars Research Journal, 1(1), pp. pp. 43-52.

[21] Cellier, A. & P. Chollet (2010). *The Impact of Corporate Social Responsibility on Stock Prices: An Event Study of Vigeo Rating Announcement.* Working Paper, Université Paris-Est, Institut de Recherche. Retrieved from: http://www.kadinst.hku.hk/sdconf10/Papers_PDF/p232.pdf

[22] Cetindamar, D. & K. Husoy (2007). *Corporate Social Responsibility Practices and Environmentally Responsible Behavior: The Case of The United Nations Global Compact.* Journal of Business Ethics, 2007, 76 (2), pp. 163-176

[23] Committee for Economic Development of The Conference Board (CED) (1971). *Social Responsibilities of Business Corporations.* Retrieved from https://www.ced.org/pdf/Social_Responsibilities_of_Business_Corporations.pdf

[24] Cone, C. L. (2014, October 8th). *India's Mandatory CSR Law Inspires Innovation.* Triple Pundit. Retrieved from http://www.triplepundit.com/2014/10/indias-mandatory-csr-law-inspires-innovative-communication/

[25] Conlisk, J. (1996). *Why Bounded Rationality?* Journal of Economic Literature, 34, pp. 669-700.

[26] D'Amato, A., Henderson, S., & Florence, S. (2009). *Corporate social responsibility and sustainable business.* Center for Creative Leadership: Greensboro, North Carolina.

[27] Daniel, K. D., Hirshleifer, D., & Subrahmanyam, A. (1998). *Investor Psychology and Security Market Under- and Overreactions.* The Journal of Finance, 53(6), pp. 1839-1885.

[28] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. (2014). *L 330/1.* Official Journal of the European Union.

[29] Dula, M. L. (2009). *"Doind well by doing good" revisited: does EXXONMOBIL's corporate philanthropy yield increased wealyh for shareholders in the short term?* Unpublished master's thesis, Georgetown University, Washington DC.

[30] Elkington, J. (1997). *Cannibals with Forks: the Triple Bottom Line of 21st century Business.* Oxford: Capstone.

[31] European commission (2011, October 25th). *A renewed EU strategy 2011-14 for Corporate Social Responsibility.* European commission, COM(2011), 681. Retrieved from http://eur-lex.europa.eu/LexUriServ/ LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF

[32] Fama, E. F. (1970). *Efficient capital markets: a review of theory and empirical work.* Journal of FinanceJournal of Finance, 25, pp. 793-805.

[33] Fiori, G., Di Donato, F., and Izzo, M.F. (2007). *Corporate Social Responsibility and Firms Performance. An Analysis on Italian Listed Companies.* Working Pa-

per. Luiss Guido Carli. Retrieved from http://eprints.luiss.it/374/1/Fiori_2007_03_OPEN.pdf

[34] Flammer, C. (2013). *Corporate Social Responsibility and Stock Prices: The Environmental Awareness of Shareholders.* Academic Management Journal, 56(3), pp. 758-781.

[35] Fleming, P. (2006, October 5th). *Investors Press S&P 500 Companies for Better Disclosure on Environmental and Social Challenges.* Pr Newswire. Retrieved from http://www.prnewswire.com/news-releases/investors-press-sp-500-companies-for-better-disclosure-on-environmental-and-social-challenges-56003277.html

[36] Forte, A. (2013). C*orporate Social Responsibility In The United States And Europe: How Important Is It? The Future Of Corporate Social Responsibility.* International Business & Economics Research Journal, 12 (7), pp. 815-824

[37] Frederick, W. (2006). *Corporation, be good! The story of corporate social responsibility.* Indianapolis: Dog Ear Publishing.

[38] Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach.* Boston: Pitman.

[39] Friedman, M. (1970, September 13th). *The Social Responsibility of the Business is to Increase Profits.* New York Times Magazine, 32-33, 122-124. Retrieved from http://query.nytimes.com/mem/archive-free/pdf?res=9E05E0DA153CE531A15750C1A96F9C946190D6CF

[40] Garriga, E. & D. Melé (2004) *Corporate Social Responsibility Theories: Mapping the Territory.* Journal of Business Ethics, 53 (1-2), pp. 51-71

[41] Gjølberg, M. (2009). *Measuring the immeasurable? Constructing an index of CSR practices and CSR performance in 20 countries.* Scandinavian Journal of Management, 25, pp. 10-22.

[42] Godelnik, R. (2012, June 6th). *Back to Basics: What is CSR Reporting?* Triple Pundit. Retrieved from http://www.triplepundit.com/2012/06/csr-reporting/

[43] Goelzer, D. (2014, September 9th). *Mandated Corporate Social Responsibility Reporting: Coming Soon to a Country Regulating You.* Global Compliance News. Retrieved from http://globalcompliancenews.com/mandated-corporate-social-responsibility-reporting-20140909/

[44] GRI. (2013). *G4 SUSTAINABILITY REPORTING GUIDELINES.* Global Reporting Initiative. Retrieved from https://www.globalreporting.org/ reporting/g4/Pages/default.aspx

[45] Habisch, A., Patelli, L., Pedrini, M., & Schwartz, C. (2011). *Different Talks with Different Folks:A Comparative Survey of Stakeholder Dialog in Germany, Italy, and the U.S.* Journal of Business Ethics, 100, pp. 381-404.

[46] Hahn, R. (2012). *Standardizing Social Responsibility? New Perspectives on Guidance Documents and Management System Standards for Sustainable Development.* IEEE - Transactions on Engineering Management, 59(4), pp. 717-727.

[47] Heald, M. (1970). *The Social Responsibilities of Business: Company and Community, 1900-1960.* Cleveland: The Press of Case Western Reserve University

[48] Hemingway, C.A. & P.W. Maclagan (2004). *Managers' personal values as drivers of corporate social responsibility.* Journal of Business Ethics, 50 (1), pp. 33-44

[49] Hirshleifer, D., & Shumway, T. (2003). *Good Day Sunshine: Stock Returns and the Weather.* The Journal of Finance, 58(3), pp. 1009-1032.

[50] Holme, L. & Watts, R. (2000, January 1st). *Corporate Social Responsibility: Making Good Business Sense.* Ginevra, Switzerland: World Business Council for Sustainable Development. Retrieved from http://research.dnv.com/csr/PW_Tools/PWD/1/00/L/1-00-L-2001-01-0/lib2001/WBCSD_Making_Good_Business_Sense.pdf

[51] Hong, H., & Stein, J. C. (2007). *Disagreement and the Stock Market.* Journal of Economic Perspectives, 21(2), pp. 109-128.

[52] Il Sole 24 Ore. (2013). *Milan stock exchange's market capitalization rises but its ratio to GDP lags.* [Data file, Market capitalization of Italian companies in the last 5 years(% of GDP)]. Retrieved from http://data.worldbank.org /indicator/CM.MKT.LCAP.GD.ZS

[53] Ioannou, I., & Serafeim, G. (2014). T*he Consequences of Mandatory Corporate Sustainability Reporting: Evidence from Four Countries.* Wroking Paper 11-110, Harvard Business School, pp. 1-34.

[54] Izzo, M.F. & F. di Donato (2012). T*he Relation between Corporate Social Responsibility and Stock Prices: An Analysis of the Italian Listed.* Working Paper. Retrieved from SSRN:http://ssrn.com/abstract=1986324

[55] Johnson, H. (1971). *Business in contemporary society: framework and issues.* University of Michigan: Wadsworth Pub. Co.

[56] Karnani, A. (2010, August 23rd). *The Case Against Corporate Social Responsibility.* The Wall Street Journal. Retrieved from http://www.wsj.com/articles /SB10001424052748703338004575230112664504890

[57] Karnani, A. (2013, May 20th). *Mandatory CSR in India: A Bad Proposal.* Standord Social Innovation Review. Retrieved from http://www.ssireview.org /blog/entry/mandatory_csr_in_india_a_bad_proposal

[58] Katsoulakos, P., Koutsodimou, M., Matraga, A., & Williams, L. (2004). *An historic perspective of the CSR movement.* [White Paper SFA1D]. Retrieved from http://www.csrquest.net/ uploadfiles/1D.pdf

[59] Kokubu, K. (n.d.). *CSR in Japan: What is social responsibility in Japan?* [PDFdocument]. Retrieved from http://www.eesc.europa.eu/resources /docs/kokubu.pdf

[60] Kotari, S. P., & Warner, J. B. (2006). *Econometrics of Event Studies.* Working Paper, pp. 1-53.

[61] KPMG, & UNEP, U. N. (2006). *Carrots and Sticks for Starters.* Parktown: KPMG.

[62] KPMG. (2013). *The KPMG Survey of Corporate Responsibility Reporting 2013.* [Data survey]. Retrieved from http://www.kpmg.com/Global/en /IssuesAndInsights/ArticlesPublications/cor porate-responsibility/Pages/default.aspx

[63] Liang, H. & L. Renneboog (2014). *Finance and Society: On the Foundations of Corporate Social Responsibility.* European Corporate Governance Institute (ECGI) - Finance Working Paper No. 394/2013. Retrieved from: SSRN: http://ssrn.com/abstract=2360633

[64] Loewenstein, G. (1996). *Out of Control: Visceral Influences on Behavior.* Organizational Behavior and Human Decision Processes, 65(3), pp. 272-292.

[65] Lundquisit (2014). *6th CSR ONLINE AWARDS. Beyond reporting to create distinctiveness in CSR communications. European and Italian editions.* [White Paper]. Retrieved from http://www.gruppohera.it/binary/hr_responsabilita_sociale/riconoscimenti/White_Paper_6th_CSR_Online_Awards.1401207331.pdf

[66] MacKinlay, C. A. (1997). *Event Studies in Economics and Finance.* Journal of Economic Literature, 35, pp. 13-39.

[67] Maguire, M. (2011). *The Future of Corporate Social Responsibility Reporting.* Issues in brief 19. The Frederick S. Pardee Center for the Study of the Longer-Range Future, pp. 1-8.

[68] Maignan, I., & Ralston, D. (2002). *Corporate Citizenship: Cultural Antecedents and Business Benefits.* Journal of the Academy of Marketing Science, 27(4), pp. 455-469.

[69] Matten, D., & Moon, J. (2008). *"Implicit" and "Explicit" CSR: a Conceptual Framework for a Comparative Understanding of Corporate Social responsibility.* Academy of Management Review, 33(2), 404-424.

[70] McWilliams, A., & Siegel, D. (2000). *Corporate Social Responsibilitiy and Financial Performance: Correlation or Misspecification?* Strategic Management Journal, 21, pp. 603-609.

[71] Menon, A., & Menon, A.(1997). *Enviropreneurial Marketing Strategy: The Emergence of Corporate Environmentalism as Market Strategy.* Journal of Marketing, 61 (1), 51-67.

[72] Mihalache, S.S. (2011). *Csr - A Marketing Tool?* Annals of Spiru Haret University, Economic Series, Universitatea Spiru Haret, 2 (1), pp. 159-164.

[73] Minor, D., & Morgan, J. (2011). *CSR as reputation insurance: Primum non nocere.* California Management Review, 53(2), pp. 40-59.

[74] Muirhead, S. (1999). *Corporate Contributions: The View From Fifty Years.* Research Report, The Conference Board (New York). Retrived from http://www.conferenceboard.ca/e-library/abstract.aspx?did=1049

[75] Mullerat, R. (2013). C*orporate Social Responsibility: a European Perspective.* Miami-Florida European Union Center of Excellence, 13(6), pp. 1-22.

[76] Murphy, P. (1978) *An Evolution: Corporate Social Responsiveness.* University of Michigan Business Review, 30 (6), pp. 19-25

[77] Norman, W., & MacDonald, C. (2004). *Getting to the Bottom of the "Triple Bottom Line".* Business Ethics Quarterly, 14(2), pp. 243-262.

[78] Nuryaman. (2013). T*he Effect of Corporate Social Responsibility activities on Profitability and Stock Price.* Journal of Global Management, 6(1), pp. 113-124.

[79] Orlitzky, M. (2013). *Corporate Social Responsibility, Noise, and Stock Market Volatility.* The Academy of Management Perspectives, 27(3), pp. 238-254.

[80] Porter, M. E., & Kramer, M. R. (2002). *The competitive advantage of corporate philanthropy.* Harvard Business Review, 57-68. Retrieved from: https://hbr.org/2002/12/the-competitive-advantage-of-corporate-philanthropy

[81] Quinn, F. (2013, November 15th). *Top 4 Reasons U.S.* Companies Report CSR. Workiva. Retrieved from https://www.workiva.com/blog/top-4-reasons-us-companies-report-csr

[82] Ramanathan, K.V. (1976). T*oward A Theory of Corporate Social Accounting.* The Accounting Review, 51(30), pp.516-528.

[83] Read, D., Loewenstein, G., & Rabin, M. (1999). *Choice Bracketing.* Journal of Risk and Uncertainty, 19, pp. 171-197.

[84] Reinhardt, F. L., Stavins, R. N., & Vietor, R. H. (2008). *Corporate Social Responsibility Through an Economic Lens.* Review of Environmental Economics and Policy, 2(2), pp. 219-239.

[85] Siegel, J. (2006, June 14th). *The 'Noisy Market' Hypothesis.* The Wall Street Journal. Retrieved from http://www.wsj.com/articles/SB115025119289879729

[86] Soderstrom, N. (2013, April). *Sustainability reporting: past, present, and trends for the future.* Insights Melbourne Business and Economics, 13, pp. 31-37.

[87] Stracca, L. (2004). *Behavioral finance and asset prices: Where do we stand?* Journal of Economic Psychology, 25, pp. 373-405.

[88] Tencati, A., & Zsolnai, L. (2010). *The Collaborative Enterprise: Creating Values for a Sustainable World.* Peter Lang Academic Publishers: Oxford, Bern, Berlin, Bruxelles, Frankfurt am Main, New York, Wien.

[89] Tepper Marlin, A., & Tepper Marlin, J. (2003, March 9th). *A brief history of social reporting.* Mallenbarker.net. Retrived from http://www.mallenbaker.net /csr/page.php?Story_ID=857

[90] Thaler, R. H. (2000). *From Homo Economicus to Homo Sapiens.* Journal of Economic Perspectives, 14(1), pp. 133-141.

[91] Tsoutsoura, M. (2004). *Corporate Social Responsibility and Financial Performance.* Unpublished Applied Financial Project, Haas School of Business, University of California at Berkeley, pp. 1-21. Retrieved from http://responsiblebusiness.haas.berkeley.edu/documents/FinalPaperonCSR _PDFII.pdf

[92] UNDP (2007). *Baseline Study on CSR Practices in the New EU Member States and Candidate Countries.* Retrived from http://europeandcis.undp.org /uploads/public1/files/BASELINE_STUDY_ON. pdf

[93] Waddock, S. A., & Graves, S. B. (1997). *The Corporate Social Performance-Financial Performance Link.* Strategic Management Journal, 18(4), pp. 303-309.

[94] Yu, K., Du, S., & Bhattacharya, C. (2014). *Everybody's Talking But is Anybody Listening? Stock Market Reactions to Corporate Social Responsibility Communications.* Working Paper, Harvard Business school.

Retrieved from http://www.hbs.edu/faculty/conferences/2013-sustainability-andcorporation/Documents/stock_market_reactions_to_CSR_reports_Aug31.pdf

[95] Zeiner, I. M., & Johansen, M. T. (2013). *The Effect of Corporate Social Responsibility Announcements on a Company's Stock Returns and Market Efficiency.* Unpublished Master Thesis, BI Norwegian Business School, Oslo.

[96] Zeljković, N. (2012, October 22). *CSR in the Nordic Countries.* Nordencentrum. Retrieved from http://www.nordencentrum.pl/publikacje/monitorn/item/27-nordic_csr

[97] Zhang, C. (2006). *Defining, Modeling, and Measuring Investor Sentiment.* Unpublished thesis, University of California, Berkeley, United States.