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A RANKING ON CORPORATE SOCIAL RESPONSIBILITY FOR THE PSI20 COMPANIES

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Abstract

This paper aims to propose a CSR index constructed for 19 of the 20 companies comprising the PSI-20, from the Euronext Lisbon, and to analyse if the companies are more oriented towards the internal dimension or external dimension suggested by the European Commission Green Paper of 2001, for the 2005 - 2009 period. According to the results, one can observe that the companies under analysis give greater emphasis to the internal dimension since they showed higher values for the CRS index when compared with the analysis of external dimension.

Keywords: Internal and External dimensions; CSR; CSR Index; Euronext Lisbon; PSI-20.

1. INTRODUCTION

Globalization has increased the economic and financial interdependence of markets and countries, raising awareness about the consequences of a less responsible conduct undertaken by organizations. Society has increased its awareness about the impact of organizations activities, and hopes that they respond to their social demands, if they want to maintain long-term profits. Organizations will be better equipped to develop their business in community, if they contribute positively to that community (Davis, 1973). In this context, Corporate Social Responsibility (CSR) emerge as a way to organizations assume their responsibilities, and is assuming an increasingly importance globally. In the European context, the European Commission has developed several initiatives to promote CSR, but more than that, to put Europe on the path of excellence on CSR.

There are several reasons for this change, for example, corruption cases involving fraudulent accounting, the growing gap between the salaries of top managers and their employees, abusive practices, marketing of products harmful to public health, violation of human rights and environmental standards (Lama & Muyzenberg, 2008).

Other reasons cited are the shift of organizations towards social responsibility relates to the organizational changes and market driven by globalization and technological development (Zadek, 1999, 2004), namely "the transparency of business activities brought by the media and by modern information and communication" (ECC, 2001, p.4). Joining this with social responsibility it can become increasingly important, and "the business which vacillates or choose not to enter the arena of social responsibility, may find that it gradually sink into customer and public disfavour" (Davis, 1973, p. 321).

Heal (2004) argues that CSR has a role to play when the market fails through private-social cost differentials, particularly in two situations: (1) when the private economic costs are not aligned with social costs, for example, what is more profitable for the companies is not the best for the welfare of society; (2) when there are strong disagreements to what is perceived as fair by the companies and society. In both situations the CSR can be used to produce the social welfare. Otherwise, if economic private costs and social cost are in line, CSR has, according to the author, little to add.

In the current context, characterized by social asymmetries, CSR has an important role in bringing the balance that should support a sustainable development.

2. LITERATURE REVIEW

Despite the evidence of social concerns by companies much before their written conceptualization, CSR emerges as formal written concept, in the United States, in the fifties, with the publication by Howard Bowen, entitled "Social responsibilities of the businessman", marking the beginning of modern literature on CSR (Carroll, 1999). In its initial definition, Bowen (1953, cited in Carroll, 1999) "refers to the obligations of businessmen to pursue policies, to make decisions, or to follow lines of action which are desirable in terms of the objectives and values of our society" (p. 270). According to the author businessmen were responsible for their actions not only with regard to economic performance, but in a broader context as well (Bowen, 1953, cited by Carroll, 1999).

Many definitions and conceptualizations have followed, suggested by an extensive literature, outlining a confusing framework, without unanimity on a universally accepted definition. The World Business Council for Sustainable Development (WBCSD), an organization that combines several international companies, that share commitment to a sustainable development, published in their Social Responsibility Report on 2000, the following definition: "Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (WBCSD, 2000, p.10).

In the European context the first great impetus to the promotion of social responsibility, arise in 1993, through the "call made by President Jacques Delors to these companies to participate in the fight against social exclusion" (ECC, 2001, p.3), which resulted in a large membership. Later, in March 2000, on the Lisbon European Council, the European Union called again to the sense of corporate social responsibility as "regarding best practices on lifelong learning, work organization, equal opportunities, inclusion social and sustainable development" (ECC, 2001, p.3).

In the Green Paper, named "Promoting a European framework for corporate social responsibility", ECC has defined CSR as "a concept whereby companies decide voluntarily to contribute to a fair society and a cleaner environment (...). This responsibility is expressed towards employees and more generally in relation to all stakeholders affected by business and which in turn can influence their results "(ECC, 2001, p.4). ECC (2001), considered the corporate social responsibility in two dimensions, the internal and external dimension, which include several aspects: (1) The internal dimension includes the "Human Resources Management", "Health and Safety at Work" "Adapting to change," and "Management of environmental impacts and natural resources"; (2) The external dimension of CSR includes "local communities", "Business partners, suppliers and consumers," and "Human rights and global environmental concerns" (pp.8-16).

The conceptualization of CSR is yet to achieve a consensus, but for organization to perform in a social way, we must answer the question “How can and do corporations contribute to constructing 'the good society'? This question itself must be answered in the context of a discussion on corporate social performance -the outcomes of corporate behavior” (Wood, 1991, p. 6). Corporate Social Performance (CSP) uses CSR “as the starting point for corporate social involvement” (Wartick& Cochran, 1985, p.758). To Waddock and Graves (1997) many of the measures used, or are one-dimensional (such as disclosure and social investments in pollution control), and do not reflect all aspects of CSP, or are difficult to apply in a consistent manner to the diversity of industries and companies. They point to the problem of measuring CSP as a major reason for the uncertainty of the results obtained in several studies that examined the relationship between social performance and economic and financial performance.

Different authors (e.g., Griffin & Mahon, 1997; Waddock& Graves, 1997), used indexes for the measurement of social performance, namely the index developed by the rating agency Kinder, Lydenberg, Domini (KLD). Other indexes often used are those based on reputation developed by Fortune and Moskowitz (e.g., Griffin & Mahon, 1997; Orlitzky, Schmidt & Rynes, 2003, Stanwick and Stanwick, 1998; Wood & Jones, 1997).

In Europe, and for German companies, Szekeley and Knirsch (2005) reported that different methods were used by companies to evaluate performance, and that many have adopted the guidelines of the Global Reporting Initiative (GRI), differing, however, on aspects who chose to measure and report. In Portugal, where the practice of CSR in a systematic way is relatively recent, with some lag to most of the other European countries (CECOA, 2004). A recent study refers the difficulties in quantifying and measuring socially responsible practices and advised the need of building measurement models that serve, not only for Portuguese companies to quantify their projects, but also to be able to select the best practices in accordance with sustainability and stakeholder expectations (Leite&Rebelo, 2010).

In this study we defined several variables to assess the social performance, taking into account the multiplicity of aspects that are covered by CSP, and based on the variables defined in the Green Book by ECC (2001), considering as well literature on the theme and the guidelines of the GRI, used by several Portuguese companies that report their social performance. Also we consider the fact that most of the Portuguese companies set their CSR goals according to the three dimensions of the sustainable development (usually call by “Triple bottom line”): Economic, Environmental and Social.

3. METHODOLOGY

The purpose of this study is to understand how the PSI-20 Portuguese companies are implementing CSR in their strategies in order to achieve more market and social reputation. For this, it was used sustainability reports, when available, from each company, between January 2005 and December 2009. 19 of 20 companies were selected, excluding EDP renewable. This company was excluded by the fact that its reports were published on the official website by EDP which comprised EDP Renewable information.

Therefore, the study focus on 19 companies and a period of 5 years (2005-2009) was taken into account. Therefore, the companies under study are Altri, BCP; BES, BPI, Brisa, Cimpor, EDP, Galp, Jeronimo Martins (JM), Mota-Engil (MOTEN), Portucel, Portugal Telecom (PT), REN, Semapa, SonaeIndustria (SOIN), Sonae, SonaeCom (SOCOM), Teixeira Duarte (TEIXDU), Zon. These companies are obliged to report their accounts according to International Accounting Standards - International Financial Reporting Standards (IAS IFRS standard), since 2005.

The variables chosen to measure the multiple dimensions of social performance, were based and adapted from Green Paper guidelines, namely the two dimensions of CSR, internal and external dimensions (COM, 2001), considering as well diverse literature on the subject, and also the GRI guidelines used by several Portuguese companies that report their social performance.

The 239 items analysed to construct the CRS index form groups of variables that measure the both dimensions (COM, 2001) of CSR, internal (116 items) and external (123 items). The internal dimension (STDI) includes the Responsible Management (15 items), Human Resources Management (36 items), Health and Safety at Work (17 items), Business Ethics (18 items), and Environmental and Natural Resources Management (30 items). The external dimension (STDE) includes Local communities (29 items), Stakeholders (17 items), Human Rights (10 items), Environmental and Philanthropic Global Concerns (10 items), and Other CSR Instruments (57 items).

It was also considered the fact that most of Portuguese companies set their CSR goals according to the three dimensions of the sustainable development: Economic, Environmental and Social. To each item was attributed a score: 0 points (to a negative answer); 1 point (to a positive answer); 0,5 points (to an incomplete answer).

The total score was defined as a variable CSR Index and is the quantitative measurement of each company in terms of social responsibility. For the construction of the variable level of CSR were defined five levels of responsibility, measured on a Likert scale, assigning to each

level a certain score range (CSR Index): 1 - Very Low CSR; 2 - Low CSR; 3 - Middling CSR; 4 - High CSR; and 5 - Very High CSR (Table 1).

Table 1: Correspondence between Level of CSR and CSR Index.

Level of CSR		CSR Index
1 -	Very Low CSR	0 - 42
2 -	Low CSR	43 - 85
3 -	Middling CSR	86 - 128
4 -	High CSR	129 - 171
5 -	Very High CSR	172 - (...)

4. EMPIRICAL COMPONENT AND DISCUSSION

According to the results obtained (Figure 1), one can observe that the companies under analysis give greater emphasis to the internal dimension (STDI) when compared with the analysis of external dimension (STDE). Figure 1 show all companies under analysis are more focus on internal dimension, as averages are higher.

The highest STDI index was observed in EDP company (77), followed by CIMPOR (72,5) and BES, BCP and BRISA (71,5, each one). In the opposite side, the lowest STDI index, are found for companies Zon (22), BPI (22) and Teixeira Duarte (23).

Analyzing the STDE index, it was achieved the highest index for EDP (53), BCP (51,5) and BES (51,5). The Teixeira Duarte (12,5), Zon (17) and BPI (21) companies presented the lowest index.

It can be concluded that the companies that presented the highest STDI were the same that presented correspondingly the highest STDE Index as for the lowest index.

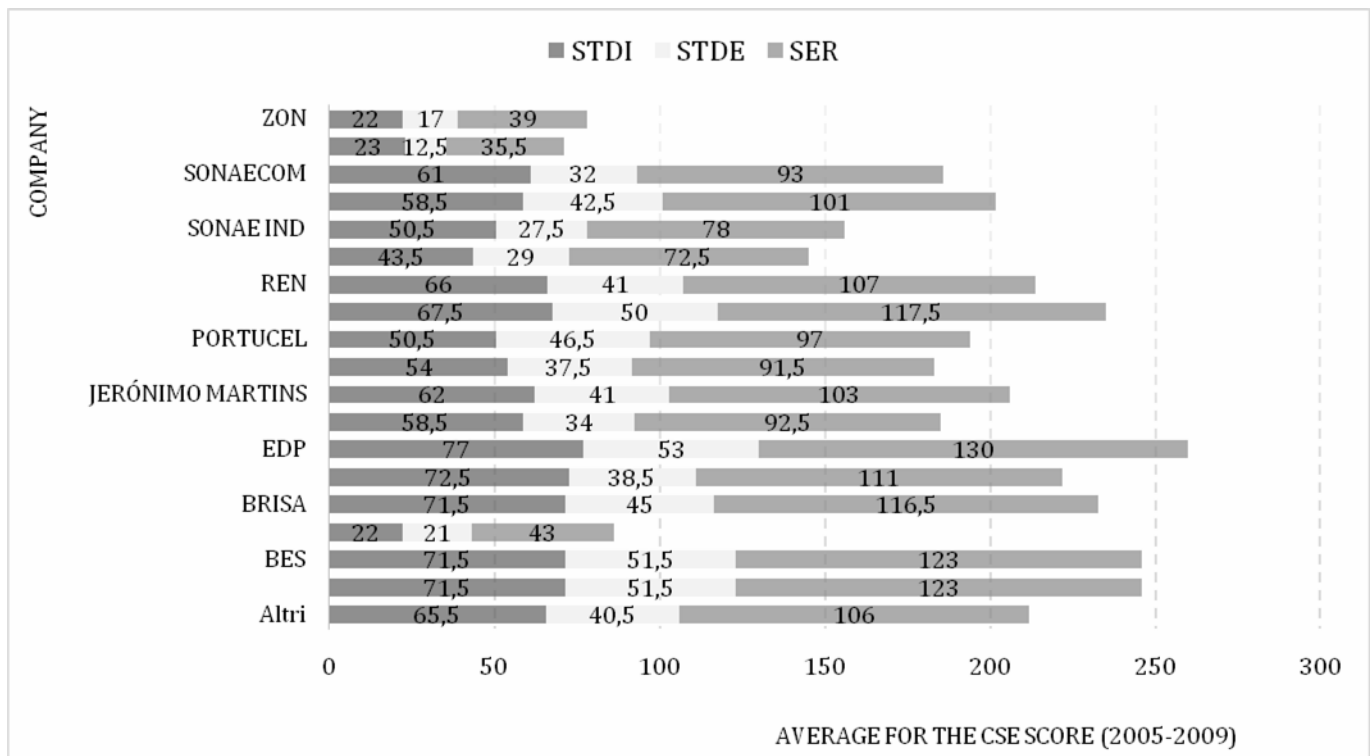


Figure 1: Internal, External and Index CSR Index for each company under analysis.

In this research we also intended to build a CSR Index for companies listed on Euronext Lisbon, analysed on a time horizon from 2005 to 2009. The CSR Index was constructed based on the different dimensions suggested by the European Commission Green Paper and allowed the assessment of social performance.

From the results it appears that there has been a positive evolution during the period under analysis, registering the biggest differences between 2005 and 2006. This can be justified by the fact that companies have been forced from 2005, to report their accounts in accordance with International Accounting Standards. The four companies that obtain the best rates for the five years are EDP, BCP, BES and PT (Table 2).

It can also be noted that in the first year all companies presented a Very Low of Corporate Social Responsibility. And in the last year, 2009, is possible to observe a significant rise in the values registered for the CSR Index.

Table 2: Classification of companies in CSR Index by year.

Year				
2005	2006	2007	2008	2009
Company (Index)	Company (Index)	Company (Index)	Company (Index)	Company (Index)
BCP (97)	EDP (120)	EDP (122)	EDP (125)	EDP (130)
EDP (95)	BES (110)	BES (117)	BES (119)	BCP (123)
PT (95)	BCP (109)	BCP (113)	PT (116)	BES (123)
BES (93)	PT (105)	BRISA (109)	BCP (115)	PT (118)
REN (83)	JM (92)	PT (107)	BRISA (112)	BRISA (117)
BRISA (81)	BRISA (91)	CIMPOR (103)	CIMPOR (106)	CIMPOR (111)
CIMPOR (81)	SONAE (90)	REN (99)	REN (104)	REN (108)
PORTUCEL (71)	ALTRI (89)	ALTRI (96)	JM (101)	ALTRI (106)
GALP (67)	REN (87)	JM (93)	ALTRI (98)	JM (103)
SONAE (55)	CIMPOR (87)	SONAE (90)	PORTUCEL (96)	SONAE (101)
SEMAPA (51)	PORTUCEL (85)	PORTUCEL (88)	SONAE (94)	PORTUCEL (97)
BPI (38)	MOTA-ENGIL (82)	MOTA-ENGIL (87)	GALP (92)	GALP (93)
SONAECOM (37)	SONAECOM (75)	GALP (80)	MOTA-ENGIL (89)	SONAECOM (93)
TD (28)	GALP (69)	SONAECOM (77)	SONAECOM (86)	MOTA-ENGIL (92)
SONAE IND (23)	SEMAPA (66)	SEMAPA (69)	SONAE IND (75)	SONAE IND (78)
ALTRI (19)	SONAE IND (61)	SONAE IND (64)	SEMAPA (73)	SEMAPA (73)
ZON (9)	BPI (39)	BPI (40)	BPI (41)	BPI (43)
JM (6)	TD (33)	TD (33)	TD (36)	ZON (39)
MOTA-ENGIL	ZON (9)	ZON (26)	ZON (33)	TD (36)

(2)

Note: JM - Jerónimo Martins; SONAE IND - Sonae Indústria; TD - Teixeira Duarte.

By analysing the values shown in the Table 3 it can be concluded that there has been a positive change in the adoption and dissemination of CSR within the time period under study. While in the first year all companies presented a registered index as Very Low CSR; the last year has observed a distribution with more positive levels. However, in the level Very High CSR no company has positioned. Still, the award of the level Very Low and Low CSR shall not by itself that in practice the company does not act in a socially responsible manner. But that probably does not show awareness or predisposition to disclose, and to somehow make a commitment to evaluate and improve their social performance, which will have its impact on how the different stakeholders value the company. Also, the categorization of High and Very High CSR not mean by itself that the company is effectively at this level of responsibility, but at least strives to demonstrate and promote what eventually the medium and long term, contribute to a better performance social and rooting for CSR in corporate culture.

Table 3: Correspondence between Level of CSR and CSR Index.

Level of CSR	CSR Index	% of companies 2005	% of companies 2006	% of companies 2007	% of companies 2008	% of companies 2009
1 Very Low - CSR	0 - 42	100%	15,8%	15,8%	15,8%	10,5%
2 Low CSR -	43 - 85	-	31,6%	21%	10,5%	15,7%
3 Middling - CSR	86 - 128	-	52,6%	62,2%	73,7%	68,4%
4 High CSR -	129 - 171	-	-	-	-	5,4%
5 Very High - CSR	172 - (...)	-	-	-	-	-

Considering that the measurement of CSR in the current study was performed by analyzing the information that companies disseminate in their reports the results somehow portray not only how companies are embracing to social responsibility, but also demonstrate that commitment in the promotion of socially responsible performance.

5. CONCLUSIONS

Considering that the measurement of CSR, in the current study, was performed through the analysis of information that companies disclose in their reports, the obtained results somehow portray not only how companies are embracing social responsibility, but also the demonstrated commitment in the promotion of socially responsible performance. Yet, the attribution of the degree of Very Little Responsible shall not mean, by itself, that in practice the company does not act in a socially responsible manner, but that probably does not show awareness or willingness to disclose, and to somehow make a commitment to evaluate and improve their social performance, which will have its impact on how the different stakeholders value the company. Also, the categorization of Very Responsible not mean by itself that the company is effectively at this level of responsibility, but at least strives to demonstrate and promote what eventually the medium and long term, contribute to a better performance social and rooting for CSR in corporate culture.

The present investigation had as main objective the construction of an index of CSR for companies listed on Euronext Lisbon, belonging to PSI-20. The study focused on 19 Portuguese companies for a time horizon from 2005 to 2009. For the analysis and measurement of CSR was constructed an index that included ten dimensions and had as main reference the Green Paper. Three groups of variables were defined: (1) Internal Dimension Variables - Responsible Management, Human Resource Management, Health and Safety, Environmental Impact and Natural Resources Management, and Business Ethics, (2) External Dimension Variables - Local Communities, Stakeholders, Human Rights and Environmental Concerns and Global Philanthropic, (3) Other variables - Instruments of CSR.

The measurement of the ten defined dimensions for CSR allowed the definition of CSR Index and categorization according to five levels of CSR. The obtained results allow verifying that there has been a positive development in the adoption and disclosure of the practices of corporate social responsibility in the analysis, which becomes more evident after 2005, with a growing number of indices in each year for all companies.

In general it can be said that Portuguese companies analyzed denote a growing sensitivity in the adherence and spreading of its social responsibility practices, investing in a more specific and detailed disclosure, and in particular comply with the guidelines of the Global Reporting Initiative.

This paper presents the development and testing, in the national context, a new model for measuring CSR which is a starting point for the construction of a European evaluation index of CSR, according to the dimensions defined by the European Commission. We are aware that the building of indexes and rankings will always be subject to criticism and objections

due to the multiplicity of possible approaches and analysis tools. However, the possibility of making those Instruments of public access takes that should be taken into consideration and discussed. The score obtained in the ESI index should be addressed by the company preferably a perspective of continuous improvement, regardless of the alternative analysis tools. More important than analyzing the absolute positioning of the company in terms of CSR is that the index allow start thinking and change practices to get better placement in future editions.

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