2013

Volume 11, Issue 2

FOREST BUSINESS SOLUTIONS RESEARCH BRIEF

Financial Performance, CSR Engagement and Potential Benefits of CSR Engagement of US Manufacturing Firms

Authors: Eric Hansen, Rajat Panwar, and Erlend Nybakk

Description: Overview of findings regarding financial, social, and environmental performance during the period 2008-2011, among manufacturing sectors.

Methods: Mail survey

Data Source: Select US manufacturers from five SIC designations: 1) food and kindred products, 2) tobacco products, 3) lumber and wood products, 4) furniture and fixtures, 5) paper and allied products, and 6) chemicals and allied products

Key Findings:

- Food and Chemical companies experienced positive financial developments during 2008-2011 while Lumber companies saw very negative results
- All industry sectors increased their engagement in environmental activities
- Overall, respondents were quite skeptical regarding the potential benefits of engaging in social responsibility activities

Introduction

This is the second of two Research Briefs to be sent to you because you expressed an interest in receiving study results.

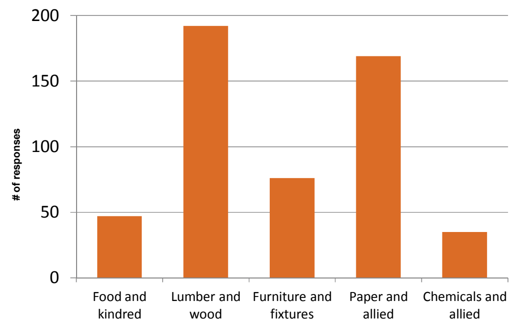
Methods

Data for this study was collected via a mail survey. Of the total of 4599 mailed questionnaires, 524 responses were received (response rate of 12%). Responses for all questions were recorded on a 7-point scale.

Results

We received only two responses from Tobacco products companies and report no results from the sector. In the remainder of the text we refer to the industry sectors as: Food, Lumber, Furniture, Paper, and Chemicals. The number of responses varied significantly across sectors (Figure 1).

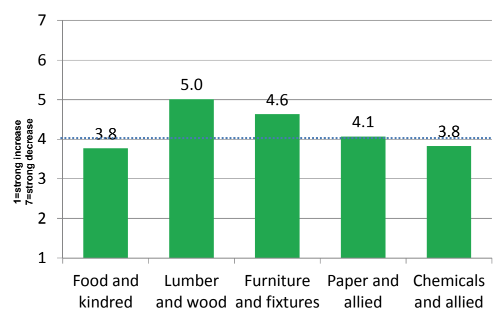
Figure 1: Respondents by Industry Sector



With respect to financial performance (2008-11), the Lumber, Furniture, and Paper sectors report a decrease whereas the Food and Chemical sectors report an increase. Lumber companies report the largest overall decrease across all measures of financial performance. For example, with respect to net profit, Lumber has significantly worse performance than Food, Paper, and Chemicals (Figure 2).

Generally, the larger (# of employees) a company, the better its financial performance. However, statistical differences are found only between the largest category of companies and the two smallest categories. In other words, the effect of size on financial performance is pronounced only when comparing very small with very large companies. Notably, sales growth rate does not change with company size.

Figure 2: Net Profit by Industry Sector, 2008-2011



In terms of their choice of competitive strategy, Chemical companies are more focused on competing through cost reduction than Lumber companies—a finding contradicting a generally held view that forest sector companies tend to have a low cost focus. Although statistical significance is only between the Lumber and Chemicals sectors, Lumber companies report the least low-cost focus of all sectors. No significant differences are evident across sectors with respect to a differentiation strategy.

Corporate social responsibility (CSR) is a new area that companies across sectors increasingly focus on. Often, CSR practices are tied with numerous business benefits. We find in this study that respondents from smaller companies are, generally, more positive about business benefits of CSR. Statistically significant differences are primarily only between the smallest firms (1-49 employees) and firms with 500 or more employees.

Respondents were also asked to indicate changes that took place between 2008 and 2011 in their companies' engagement in a variety of CSR activities such as those related to customers, communities, employees, and the physical environment. Results indicate that relative to Food, Paper, and Chemicals companies Lumber companies cut significantly the activities related to the customer category. Similarly, Lumber companies also report a drop in their employee benefits programs—in a significant contrast with Paper companies that report an increase. In all other sectors except Food report a reduction in community support activities.

Notably, all sectors report, on average, an increase in engagement in environmental activities. We contemplate that this increase primarily reflects a rising focus on waste reduction and energy efficiency. The Paper sector reports a significantly higher increase than Lumber.

Lumber companies also report a more hostile business environment during the 2008-2011 period than other sectors. While the recession was difficult for everyone, the Lumber industry was especially hard hit with the primary market (housing) dropping by more than 75%.

Impact of CSR Engagement

Many managers are skeptical regarding the potential bottom-line impacts of CSR engagement. Still, it is a growing issue across all industries and our goal here is to provide a snapshot of current manager thinking on the topic. Accordingly, we asked a series of questions designed to quantify the perceptions of managers regarding whether CSR activities help (or do not) the average firm. We defined social responsibility activities as activities in product/customers, employees, communities, and environmental matters which are not required by law but which a firm may voluntarily engage in. We used two categories of activities, one centered on financial benefits and the other on non-financial (see boxes on top right for example items).

There are no significant differences among industry sectors with respect to their views of CSR engagement. Overall, respondents are slightly negative regarding the potential positive impact of these activities (meaning the average rating of both categories was to the negative side of the scale midpoint). Although not statistically different, Lumber provides the most negative evaluation and Chemicals the most positive.

Separating responding companies into higher and lower financial performers shows that enhanced financial performance is associated with a more positive perception regarding whether CSR engagement can help a company. We find that is exactly the case (remember that differentiation focused companies tend to be better performers). A group of approximately 280 of our respondents, on average, saw an

In our industry, because of the costs involved, social responsibility activities increase firms' financial burden	1-7	Social responsibility activities are financially rewarding because they help firms mitigate several types of costs

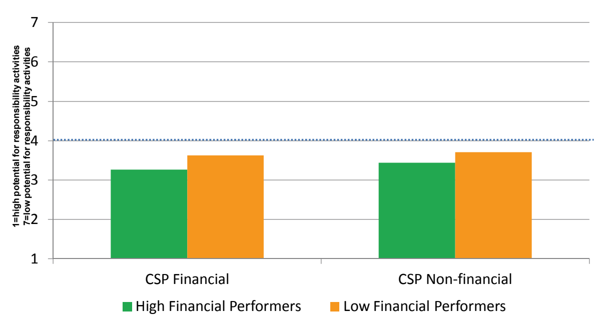
Example Financial Benefits Question

In our industry, engagement in socially responsible activities generally doesn't help firms to find new customers or markets	1-7	Social responsibility activities help firms in finding new customers or markets because a considerable number of customers prefer to buy from firms that engage in such activities

Example Non-financial Benefits Question

increase in financial performance during the period 2008-2011 and they see the potential of social responsibility activities much more positively than those companies that, on average, saw a decrease in financial performance during the period. The group also sees that CSR provides more non-financial benefits than financial benefits (Figure 3). Finally, companies formed since 1989 view CSR providing more benefits than older firms.

Figure 3: Perceived Benefits of Social Performance by Performance Level



Conclusions

Lumber companies experienced the worst financial performance during the period 2008-2011 of all sectors studied. As outlined above, this has a direct connection to the housing crash. Food and Chemicals companies report positive financial performance during the period. Treatment of CSR activities, to some extent, is tied to industry sector. However, some of these differences may be directly connected to financial performance and resulting lack of resources. There is a minority of firms that take a very positive view of the potential business benefits of CSR engagement while others are quite skeptical, suggesting that the current CSR discussions have begun to impact only a relative few.

Forest Business Solutions
Mission: Develop professionals in forest products marketing and business and facilitate forest industry competitiveness through education and research.
119 Richardson Hall, Corvallis, OR 97330, USA
Phone: 1-541-737-4240 Fax: 1-541-737-3385
E-mail: Eric.Hansen2@oregonstate.edu