

Research

Corporate Social Responsibility and Financial performance *The case of Luxury industry*

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2500/2500 words.

Keywords:

Luxury industry; Sustainability; CSR; Corporate social responsibility; Financial performance; Firm performance; Luxury; CSR Finance.

Executive summary

What is the problem?

The present research addresses the problem of understanding the relation between Corporate Social Responsibility (CSR) and Financial performance for Luxury firms. CSR has become an important issue for the whole economy, and Luxury has also to deal with its own strategic challenges. Luxury firms want to meet their expectations for both CSR and financial goals to be profitable in the long-run and strengthen their brand names.

What is the process?

To help solving this problem, the study emphasizes the literature already available on the subject and gives an additional view through data analysis. To perform this data analysis, the study applies the recommendations of the precedent investigations and provides with a global and detailed perspective of the relation between CSR and Financial performance for Luxury firms.

What are the results?

The data analysis provides many insights which, for the majority, relate to the findings of the literature review. It appears that the impact of CSR on Financial performance mostly depends on the scope of study: CSR and Financial metrics, type of Luxury firms, etc. However, it seems that in average CSR enhance Financial performance in the long run and brings out practical applications for Luxury managers.

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Introduction

Background of the study

At the beginning of the study, I was already sure to go for a research idea and my topic idea quickly turned into the effect of Corporate social responsibility on the financial performance of a company. The topic was coherent with my financial academic background and my attraction for Corporate social responsibility issues. At the same time, I decided to apply this research on the luxury industry in which I did my last internship.

Research significance

The research subject emerged when I read an article about Corporate social responsibility and Luxury which pointed out the need for further search connected to financial performance. Then, I also found an equivalent article in the Food sector and thought it would be useful to apply it to Luxury. Finally, in the last semester, I was an intern in the financial department of a big Luxury company. I found that Sustainability subjects and the correlation with finance were a current and growing concern within the teams.

Research problem and scope

In this study, I will try to answer the question: How Corporate social responsibility can enhance financial performance in the luxury industry? Therefore, the research will include social and environment practices, governance issues and financial aggregates. For efficiency and clarity purpose, the scope will be restricted to the Luxury field and thus to Luxury companies.

Research aim and objectives

The major objective is to determine how you can value human and environment as well as finance and why it is worth it. The research will be an exploratory process including qualitative and quantitative data.

Literature review

According to Hegde and Mishra (2019), Corporate social responsibility (CSR) is an intended strategic orientation of a company towards social good. CSR has become a major concern for companies in the past years. The critical need to face world environmental and social issues has forced each firm to consider the wellness of all its activity and not just profit. This situation applies even more for Luxury which is defined by extremely valued brands and products.

Corporate social responsibility and financial performance

Financial performance measurement

According to Barauskaite & Streimikiene (2021), to analyse the effect of CSR on financial performance, It is required to take into account long-term financial aggregates and, if possible, market-based indicators which are more reactive to CSR changes. On the other side, some authors such as Marom & Lussier (2020) prefer accounting-based indicators even with listed companies. Finally, some studies decide to take a look to both short-term and long-term, market-based and accounting-based, financial indicators (Rongjia SU et al., 2020).

CSR investment measurement

For CSR assessment, the majority recommend to segment it into different areas and then analyse each area. Studies use various indicators regarding the context. For small and micro-companies, the survey method seems to be the better option (Bastič et al., 2020). For more sized firms, the analysis of annual report is more relevant (Partalidou et al., 2020). Finally, a sample of listed companies brings reputé indices (Marom & Lussier, 2020), which is the best way to measure CSR performance according to Barauskaite & Streimikiene (2021).

Analytical and sensible reconciliation

The relation between CSR and financial performance depends on the scope of study : developed or emergent countries (Rongjia SU et al., 2020), big or small countries (Bastič et al., 2020), type of industry (Partalidou et al., 2020), CSR's area (Bastič et al., 2020) and so on. Due to a lot of global benefits from CSR commitment such as strengthening of company advantages or reducing of employees turnover, most of the recent studies show that Corporate social responsibility has a positive or at least neutral effect on financial performance for the economy as a whole (Barauskaite & Streimikiene, 2021).

The case of Luxury industry

CSR and Brand value

The expansion of CSR investments in Luxury firms provides the question of its impact on the company brand value (Kunz et al., 2020). Most of the authors state that this impact is nuanced between opportunities and tensions (Osburg et al., 2021). This contrast is more present for Luxury due to the importance of brand value which mitigates the effect of CSR (Diallo et al., 2021).

In Luxury, It appears that CSR in general don't have a positive impact on the brand value growth (Sipilä et al., 2021). A lot of studies emphasize this effect and explain it by the incompatibility between brand social value and customer willingness to pay (Diallo et al., 2021), or by the extrinsic CSR attributions reducing customers loyalty (Sipilä et al., 2021).

Other challenges of CSR

Moreover, there is other challenges to CSR: influence of the country like economy and culture (Osburg et al., 2021), inflexibility of small luxury actors of the supply chain (Kunz et al., 2020). Finally, for some authors, there is a potential lack of compatibility between some CSR actions and luxury philosophical vision (Osburg et al., 2021). These challenges, as well as Brand value, show that CSR is not all about benefits and must be subject to a detailed and reflected strategy.

CSR strategy for financial health

First, luxury firms should focus on a specific type of CSR action: internal-based, market-based and philanthropic (Sipilä et al., 2021). This personalized approach corroborates with the findings about the link between CSR and financial health (Rongjia SU et al., 2020). Finally, benefits could appear from introducing sustainability into the traditional brand framing (Sipilä et al., 2021).

Then, the communication of CSR should be guided so that customers perceive the functional and symbolic value of the brand instead of social value (Diallo et al., 2021). According to Diallo and others (2021), communication should also be oriented to long-term oriented customers regarding their culture. Many authors like Osburg (2021) agree on this culture and value based view which reinforces customers links, brand value and financial health in the long run.

Method

Justification of research design

The literature review already answers open questions. We have seen how to measure and parse Financial performance and CSR investment. We have also highlighted the findings about the relation between these two factors in a Luxury context. To complete the qualitative research of Literature review and address closed questions, we will go for a multi-method quantitative analysis of both Financial and CSR data. We will try to find out if the relation between the aggregates is positive or negative, if their evolutions is due to limitations or other challenges, etc.

For more insights from the data, we will also mix cross-sectional and longitudinal study. Therefore, we will try to figure out what is the relation between CSR and Financial performance at the moment, but also across the past few years. Since the time for this analysis is limited, we will focus our research on listed companies to get available and relevant financial and CSR aggregates. Besides, we will try to make our analysis the more synthetic possible.

Plan for conducting the research

We will analyze a range of data sources using a comparative research strategy. This means that we will select a sample of Luxury companies to find data insights. The sample will cover 8 of the most well-known Luxury Firms: Kering, LVMH, Richemont, Hermès, Burberry, Luxottica, Porsche and Ferrari.

For each company, we will collect three aggregates for financial performance: Operating Margin, Financial Rentability and Debt Ratio. These three indicators provide us with a short-term/accounting-based (Operating Margin) and long-term/market-based (Financial health) view.

At the same time, we will gather CSR data from one of the references for CSR rating of listed companies (cf. Appendix 3: Sources for Data Analysis). The CSR data will include global rating and detailed indicators: Internal/External, Global/Market, Long-term/Short-term.

We will use Pilot testing two times during the data collection and analysis. Finally, we will figure out the analysis outputs and practical applications for Luxury firms.

Data Analysis

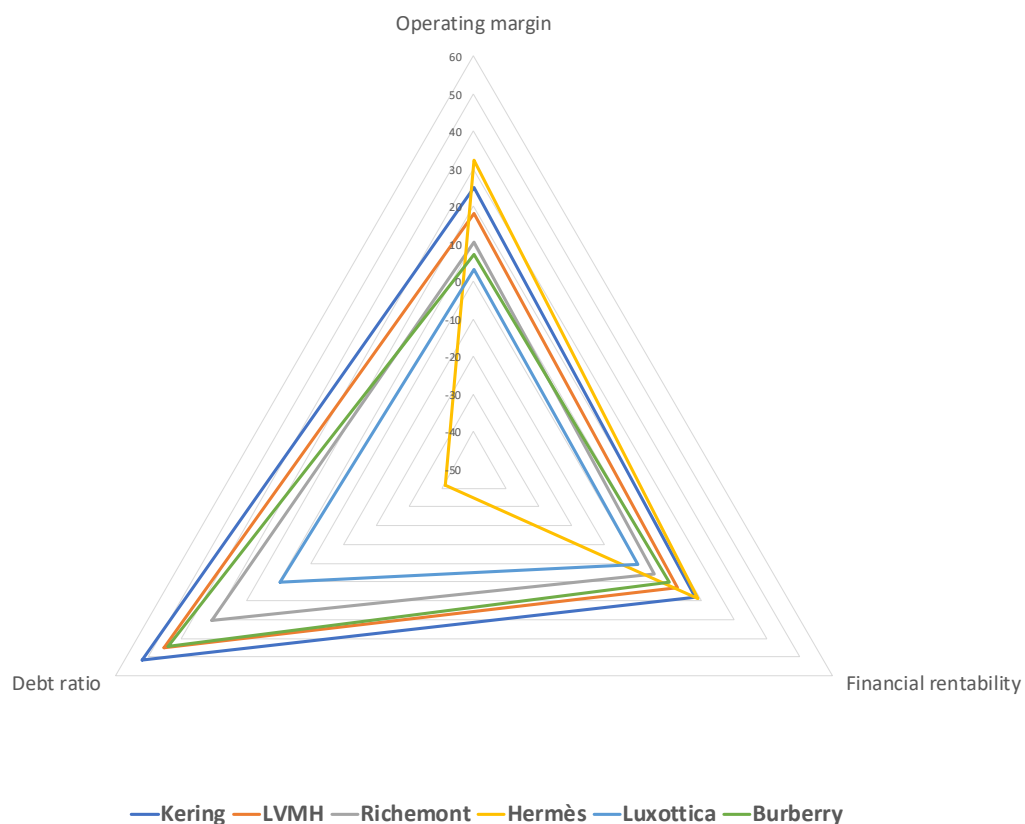
The Data Analysis will be segmented as followed: cross-sectional (2020) and longitudinal (2016-2020) studies for Luxury goods, and a separated part for Luxury cars. We will mostly use line chart for longitudinal studies, radar chart for cross-sectional studies, and tables for relevant computations.

Luxury goods

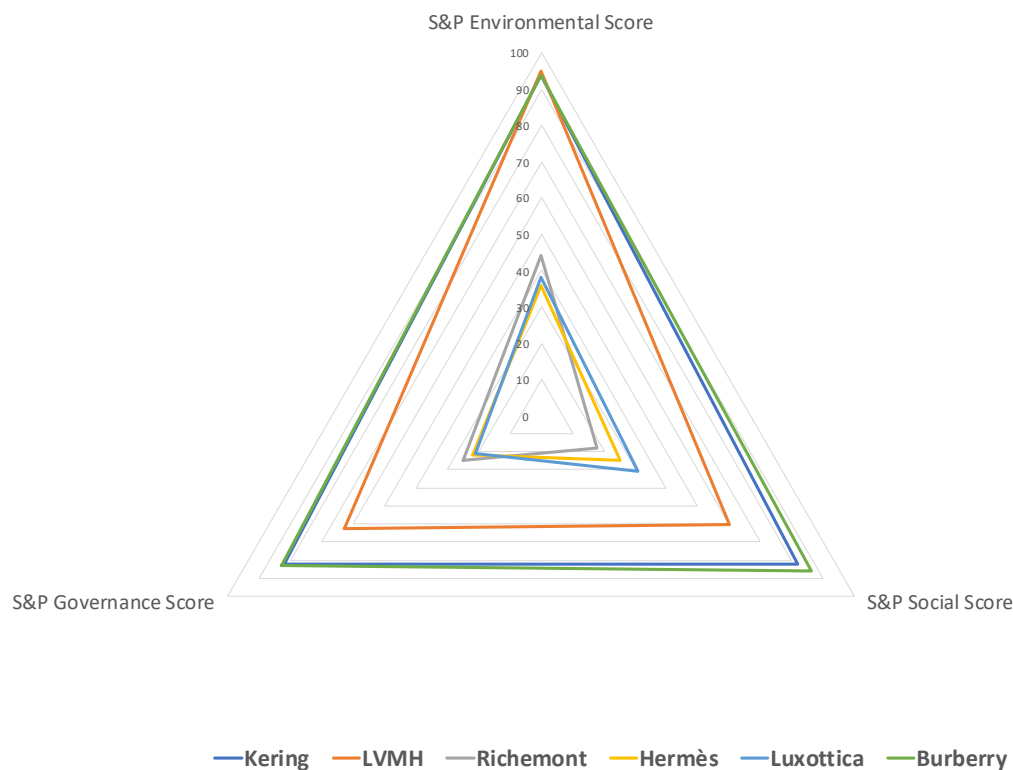
Cross-sectional study

For the cross-sectional study, we parsed CSR investment into three categories first : Environment, Social and Governance. Then, we analyzed for each Luxury goods firm, the potential impact of these investments on financial aggregates:

Financial performance 2020



CSR performance 2020

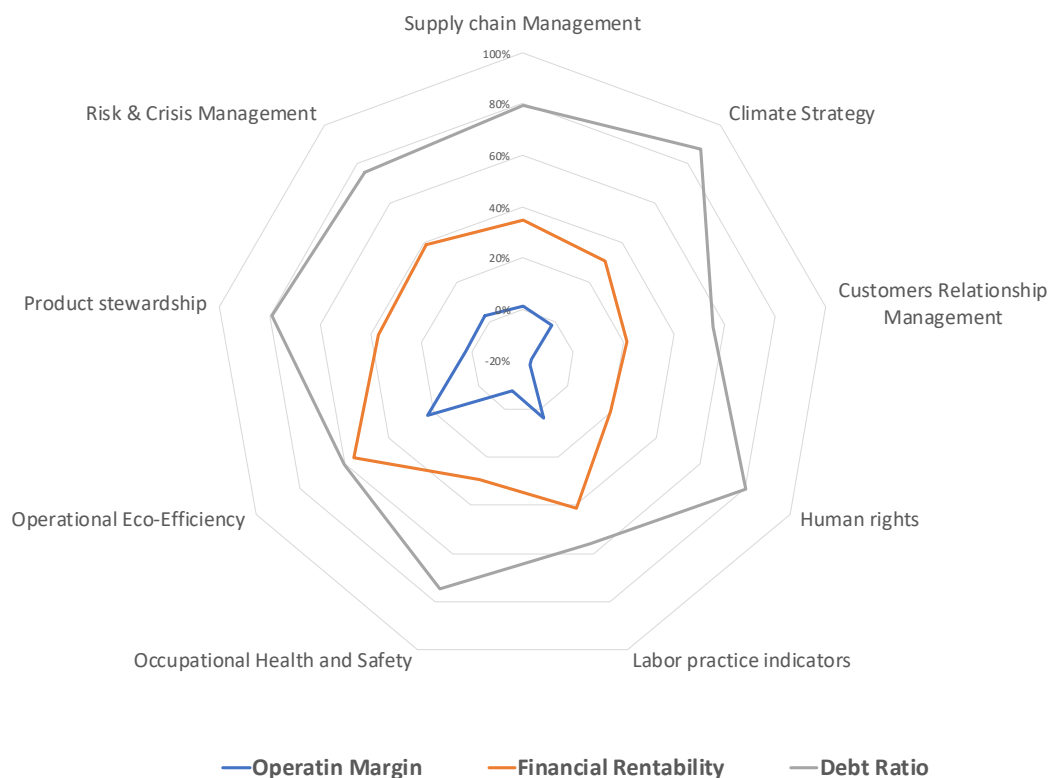


We can see that Kering, Burberry and LVMH are the Luxury brands that invest the most in CSR actions. At the same time, the three companies are also the ones which have the highest debt ratios. Therefore, we can reconcile the overall CSR investment with the Debt Ratio aggregate.

However, it doesn't seem that any of CSR area has a significant impact on Operating Margin or Financial Rentability. Indeed, both Kering and Hermes are on top of the sample for these aggregates while Hermes presents widely lower CSR scores.

For further insights, we can look at CSR in more detail. S&P Global Rating provides us with a clear view of CSR investment details: Supply Chain Management, Human rights, etc. These detailed scores confirms the dominant position of Kering, LVMH and Burberry as the most CSR-friendly Luxury brands of the sample (cf. Appendix 4). For a more precise vision, we analyze, for the sample as a whole, the correlation of each metric with Financial aggregates:

CSR details 2020: Correlation with financial aggregates

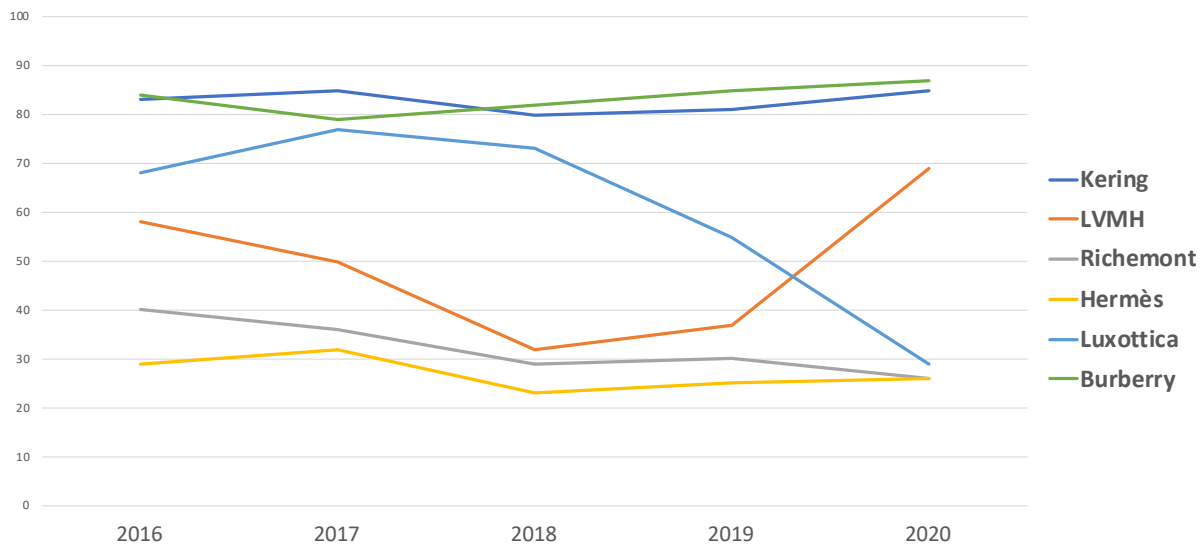


We can see here the high and positive correlation between Debt Ratio and all CSR Metrics. In addition, Financial Rentability presents a significant positive correlation with certain CSR metrics: Operational Eco-Efficiency (>50%), Customers Relationship Management (>40%), Labor practice (>40%). Finally, the correlation with Operating Margin is highly scattered. But it's interesting to see that, on one side, the short-term impact of Customers Relationship Management is negative (correlation of -20%), and that on an other side, Operational Eco-Efficiency is also profitable for short-term financial performance (correlation of 20%).

Longitudinal study

For the longitudinal study, we looked at the global S&P CSR rating and its evolution between 2016 and 2020 for each Luxury goods firm:

Evolution of CSR rating from 2016 to 2020



The comparison of this evolution with financial aggregates doesn't provide any clear guidance regarding the relation between CSR and Financial performance from the past few years. We particularly look at the evolutions of Financial Rentability and Operating Margin (Cf. Appendix 5 and 6) because these aggregates showed relevant insights in the cross-sectional analysis. However, most of the evolutions seem to be due to environment changes (Covid-19 crisis in 2020) or other factors external to CSR.

Moreover, while looking at Debt Ratio evolution, we can see that this evolution is highly negatively correlated to S&P CSR Global Rating (-40%) :

Year	Total CSR Score - Sample	Total Debt Ratio - Sample
2016	362	-28,17
2017	359	-58,14
2018	319	-86,13
2019	313	37,04
2020	322	140,36
Correlation Coefficient		-40 %

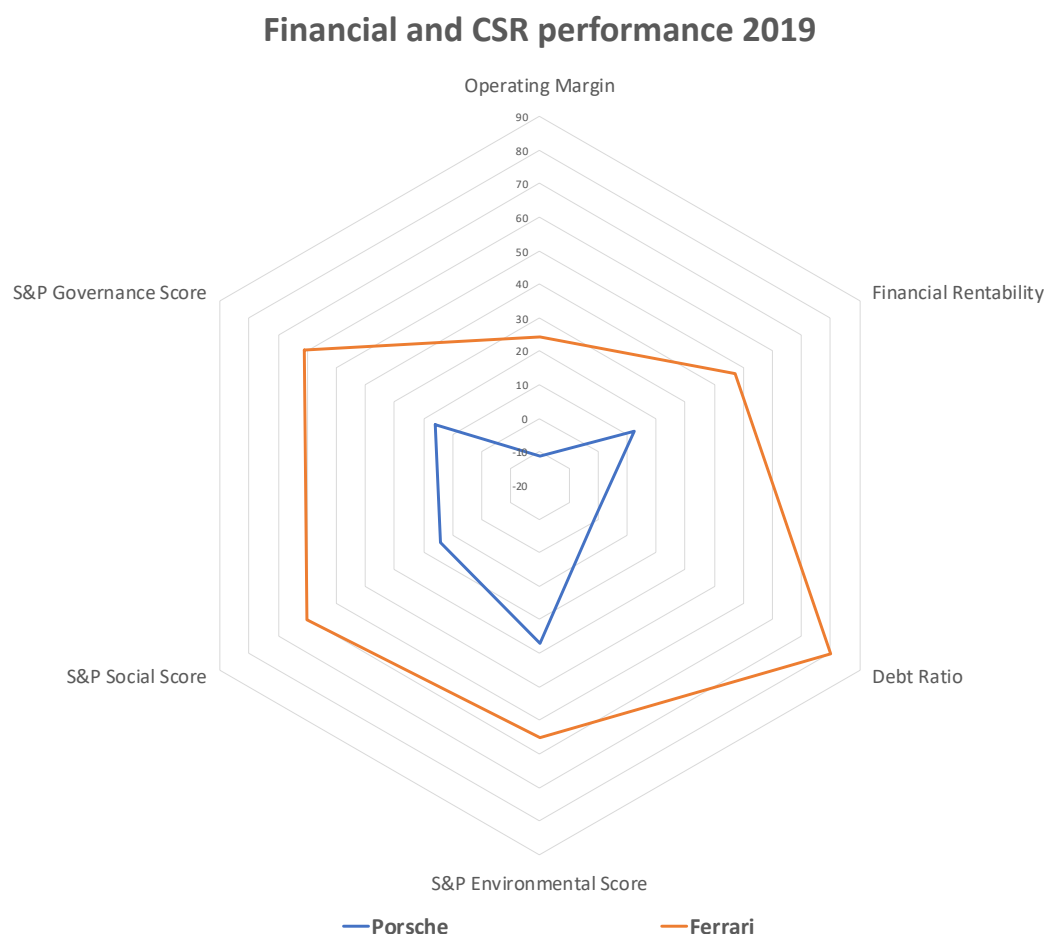
This means that investing in CSR must reduces Financial Debt across the years. This finding is contrary to the output of the cross-sectional study which showed that the more a Luxury goods company invests in CSR, the more Debt it has.

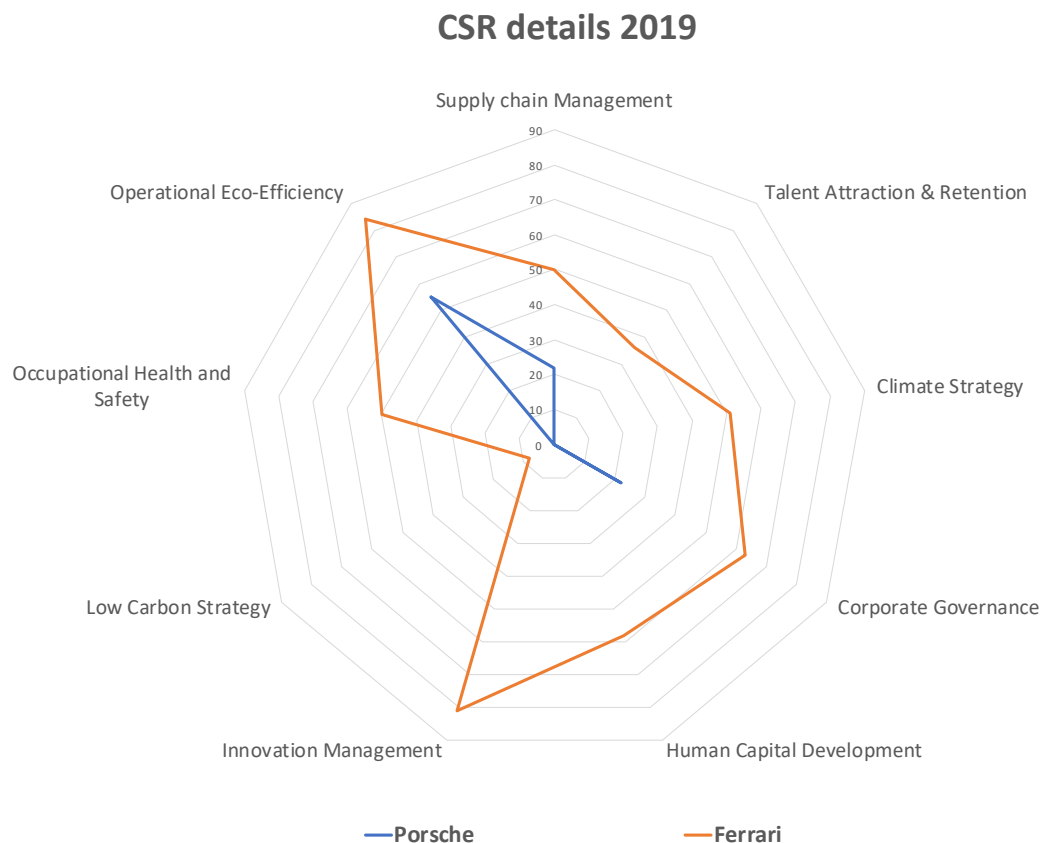
Luxury cars

Cross-sectional study

Luxury cars brands of the sample are Ferrari and Porsche. We wanted to do the same analysis for Luxury companies which differ from the majority of the sample. Therefore, we can apply the same tools by analyzing the relation between Financial aggregates and CSR three main segments (Environment, Social, Governance). Then we will go into more details by looking at correlation with sub-parts of CSR investment.

Since financial data isn't available for 2020, we take 2019 as the reference year for this cross-sectional study. Thanks to the size of this sub-sample, we can easily see the Financial and CSR performance of the two companies in one single chart:





We can clearly see that Ferrari, which has higher CSR scores, also presents higher financial indicators than Porsche. The company has 30 more points of Operating Margin and Financial Rentability, and at the same time, 80 more points of Debt Ratio.

First, when we look at the details of CSR actions, it's interesting to see that the CSR metrics are different from those of Luxury goods brands. As for Luxury goods, Operational Eco-Efficiency appears to be really important for the Luxury cars companies. However, we can see that Innovation Management is also a key point for this type of firms.

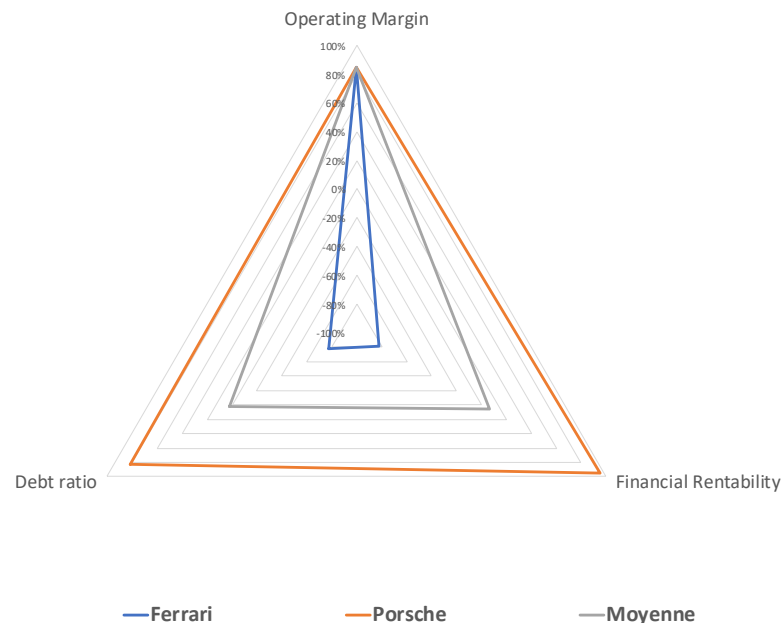
Using correlation computations here is not relevant regarding the small number of companies. Nevertheless, looking at the gross data provides us with additional understanding about the specificities of CSR regarding the sector and its potential relation with financial performance.

Longitudinal study

The longitudinal study for Luxury cars provides some results as well. We found a potential slight relation between Operating Margin and CSR at the sight of

Ferrari and Porsche evolutions (Cf. Appendix 7 and 8). Therefore, we decided to look at the correlation between CSR Global Rating and financial aggregates across the years 2017, 2018 and 2019.

Correlation CSR rating/Financial Performance - 2017 to 2019



We can see opposite results for Ferrari and Porsche regarding the correlation of CSR with Both Debt Ratio and Financial Rentability. However, the chart presents a high correlation between CSR Global Rating and Operating Margin for both Ferrari and Porsche (84%). This confirms our initial hypothesis from the Ferrari and Porsche evolutions. Consequently, we can relate this finding by the importance of Innovation Management and Operational Eco-Efficiency in the sector.

Discussion and Conclusions

Data Analysis and Literature Review reconciliation

First, we found that most of the CSR metrics were positively or neutrally correlated with financial performance. This insight corroborates with the findings of Barauskaite & Streimikiene (2021). However, the analysis results were slightly less contrasted than some outputs of the Literature Review (Diallo et al., 2021).

Then, it appeared that Operational Eco-Efficiency, Customers Relationship Management and Labor practice indicators were the top three CSR metrics that enhance Financial Rentability. These metrics are either internal or customers-based. It confirms the findings of Sipilä et al. (2021) regarding the nature of CSR actions to implement.

The different key CSR metrics for Luxury goods and Luxury cars highlight the different challenges of each segment. It confirms the findings of Osburg et al. (2021) regarding the disparity of compatibility between some CSR actions and Luxury segment characteristics.

Key findings summary

The research emphasizes the need for detailed metrics. We found out that in average, the relation between CSR indicators and Financial performance was positive or, at least, neutral.

Some CSR metrics were not compatible with Luxury industry according to the segment. We saw that Operational Eco-Efficiency and Labor practice were the key CSR metrics for Luxury goods and that Innovation Management was determinant for Luxury cars, in particular for Operating Margin.

CSR actions seem to be negative for Financial Debt in short-term but positive in the long-run. However, this finding must be nuanced since the Luxury cars showed different results.

Finally, we have seen that Operation Margin, the only short-term financial aggregate, was less positively impacted by CSR metrics than others. At the same time Customers Relationship Management appeared to be only beneficial for long-term Financial health.

Practical applications for Luxury managers

Luxury managers should implement CSR actions in their long-term growth strategy. They should focus on the key CSR metrics of their segment to enhance functional value and/or symbolic value of their products. These metrics must be internal or customers-based: Operational Eco-Efficiency, Labor practice, Customers Relationship Management, Innovation Management. Lastly, Luxury managers should consider the company own vision and context to make these strategic decisions.

Further research

This investigation points out the need for further research on this topic. It includes insights from smaller Luxury firms and other Luxury segments: hotels, services, boats, etc.

Finally, it could be interesting to discover more about the brand value measurement for Luxury companies. Further research on brand value could enhance the understanding of the relation between CSR and Financial performance in Luxury industry.

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Appendix

Appendix 1: Table of the quantitative search sorted by hits - Literature Review

Database	Search words	Hits	Relevant hits
Ebsco Business Source	Luxury	2	2
Ebsco Business Source	CSR Finance	2	2
Ebsco Business Source	Corporate social responsibility and luxury industry	2	2
Ebsco Business Source	Corporate social responsibility and financial performance	2	2
Ebsco Business Source	Corporate social responsibility and firm performance	1	1
Ebsco Business Source	Corporate social responsibility	2	1
Ebsco Business Source	Data and corporate social responsibility	1	0
Ebsco Business Source	Corporate social responsibility luxury	0	0
Ebsco Business Source	Socio firm value	1	0
		Total	10

Method adapted from one of the academic article (Kunz et al., 2020)

Appendix 2: Words count excluding titles

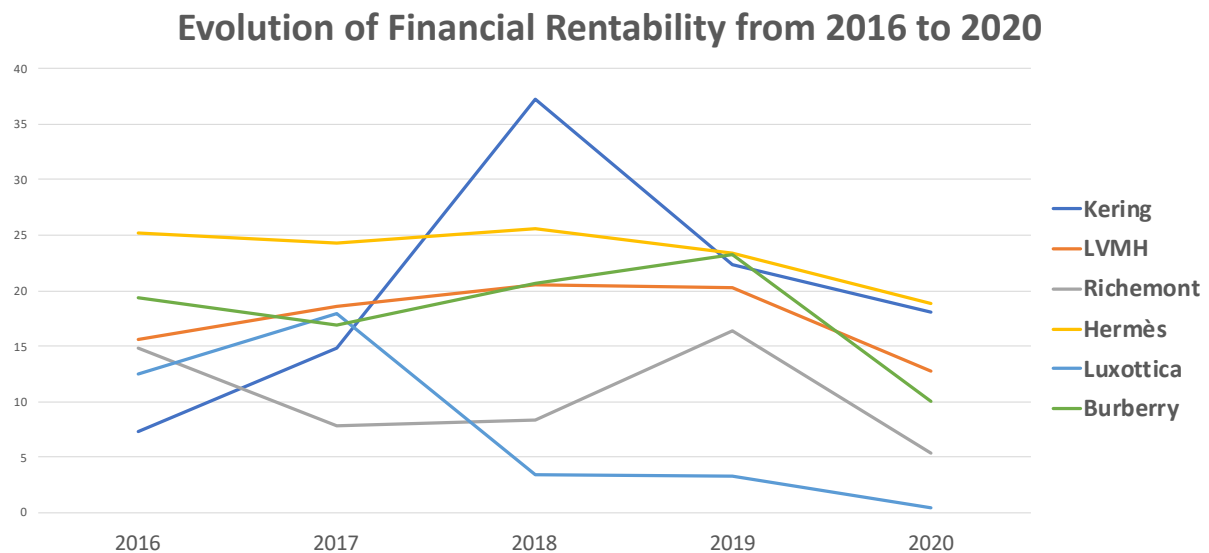
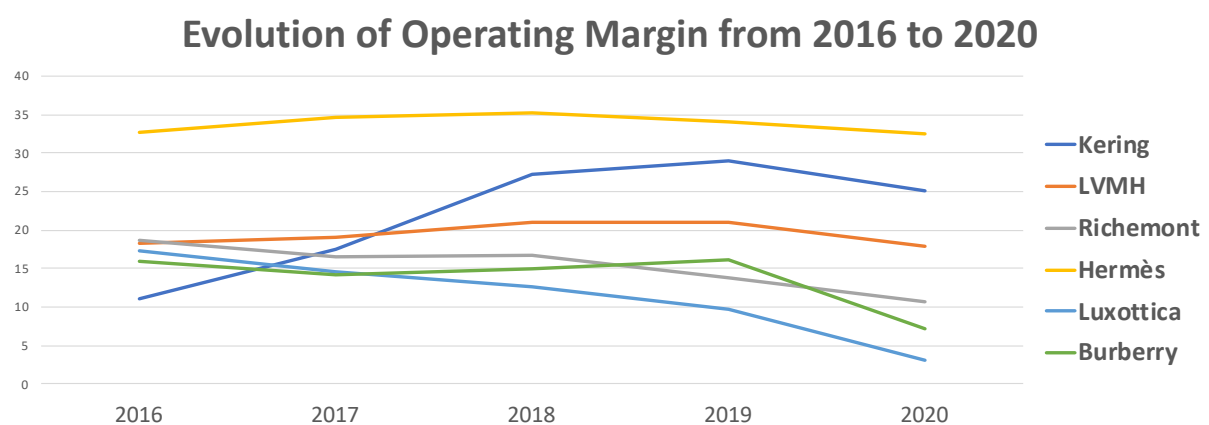
Section	Number of words
Introduction	250
Literature Review	672
Method	315
Data Analysis	867
Discussion and Conclusions	397
Total	2500

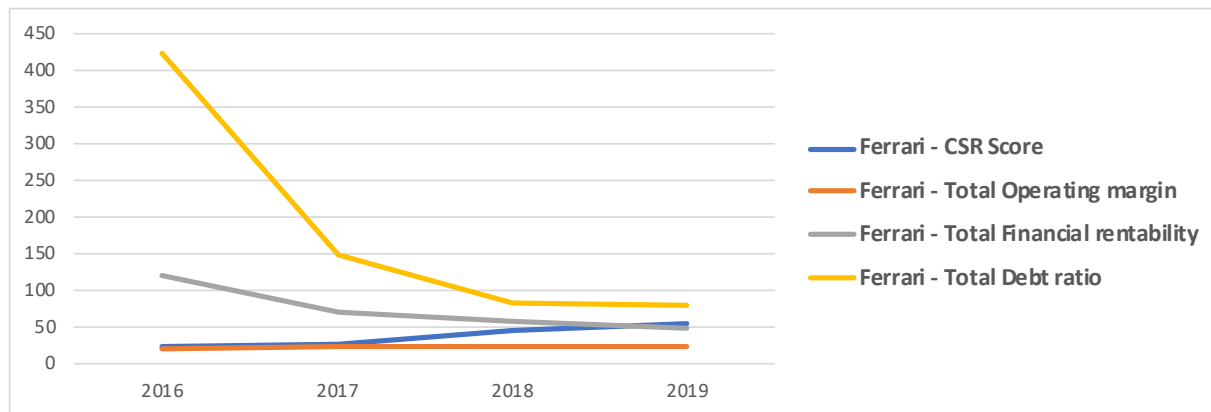
Appendix 3: Sources for Data Analysis

Aggregates	Sources
Financial performance	Les Echos
CSR Investment	S&P Global Rating

Appendix 4: CSR details 2020 - Radar chart



Appendix 5: Evolution of Financial Rentability from 2016 to 2020 - Line chart*Appendix 6: Evolution of Operating Margin from 2016 to 2020 - Line chart*

Appendix 7: Evolution of Ferrari performance from 2017 to 2019 - Line chart*Appendix 8: Evolution of Porsche performance from 2017 to 2019 - Line chart*