

Socially Responsible Investing and Profitability in Emerging Markets: An Empirical Analysis

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Executive Summary

The paper investigates the relationship between the corporate social responsibility and financial performance of companies in the emerging markets. In the western markets of Europe and Northern America, this topic has been researched widely and the majority of literature proposes a positive relation. This study transfers the discussion to the emerging markets, where the research on this topic is still lacking.

The study has two aims. Firstly, it would like to investigate, whether there is a link between the profitability of the firm and the corporate social performance, independantly of the market valuation. Secondly, the study would like to find out, whether there is a relation between the market valuation and the corporate social performance of the companies.

The relationship between the corporate social and financial performance is investigated by a multiple regression model with the ordinary least squares method. The emerging markets are approximated through the MSCI Emerging Markets Index. The profitability is assessed through accounting-based measures and the market valuation through market-based measures. The corporate social performance is measured by a rating from the company Inrate. In order to control for possible other influences, the company size, the industry and the country are included as control variables in the model.

The results of the regression indicate a weakly positive relation between the profitability and the corporate social performance. However, the relation seems to vary regionally. The market valuation shows similar results as the profitability analysis. The conclusion is drawn that the positive association between the corporate social performance and the market valuation originates from the increased profitability of the firms and not from conscientious investors that validate socially responsible companies higher. The cultural background of the market, in which the relation is investigated in, is identified as an important determinant of the strength of the relation.