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Are Corporate Social Responsibility endeavours by firms necessarily profit sacrificing?

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Corporate social responsibility (CSR) has been gradually coming to the centre stage not just in business and corporate governance but also in academia and policy circles. Long gone is the traditional view that 'the business of business is business'. Many firms seem to routinely engage in some form of socially beneficial activities that go 'beyond compliance with the laws and regulations prevailing in the jurisdictions in which they operate' [see Portney (2008); Margolis et al. (2009); Crifo and Forget (2015)]. While there is no generally agreed-upon definition of these 'socially beneficial activities', the European Commission's recommendation on CSR characterizes the key features of these societal responsibilities as "[T]o fully meet their CSR, enterprises should 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, p. 6).

Despite the rudimentary evidence on CSR practice and corporate websites boasting CSR engagements, questions surrounding CSR still abound. Why do firms engage in CSR? Can and do firms voluntarily engage in CSR sustainably? Is CSR necessarily profit sacrificing? At the heart of such perennial questions that arise in the debate on CSR is the question: *what is the precise relationship between firms' corporate social performance and economic/ financial performance?*

Existing research, both theoretical and empirical, on this question has thus far documented mixed evidence. The traditional view holds that corporate social engagement will inevitably involve profit sacrificing in the interest of social welfare because such firms see their costs rising, putting them at a competitive disadvantage vis-à-vis their competitors. A contrasting view purports that corporate responsibility to stakeholders might pay off in terms of profit by enhancing the company's reputation, appealing to socially minded consumers, investors and workers to create a double dividend or win-win situation.

This research evaluates these two competing views directly by posing the question: are firms with higher corporate social performance/standard more or less efficient than other firms? To that end, the research uses a newly developed model of stochastic frontier analysis to examine the impact of CSR on firm cost efficiency. Among other things, a key feature of the model is that it appropriately addresses the issue of endogeneity, i.e. the possibility that relatively efficient firms are likely to have higher corporate social performance or standards. The dataset consists of 1,673 firms from ten provinces in Vietnam over three years: 2009, 2011 and 2013.

The findings suggest that there is no evidence of a trade-off between economic performance and CSR compliance measures. If anything, certain CSR compliance measures appear to ameliorate cost efficiency. This positive effect of CSR on efficiency can be masked if cost efficiency is treated as exogenous or endogeneity is not handled appropriately. The results should encourage policymakers and managers not to be deterred from embracing CSR.

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