Shared Value Creation Through Integrated Reporting in the Fast-Moving Consumer Goods (FMCG) Industry - An Analysis of the Effect of Corporate Social Performance (CSP) on the Corporate Financial Performance (CFP) of Multinational Companies

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Abstract

Title: Shared Value Creation Through Integrated Reporting in the Fast-Moving Consumer Goods (FMCG) Industry - An Analysis of the Effect of Corporate Social Performance (CSP) on the Corporate Financial Performance (CFP) of Multinational Companies

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This thesis examines the effect of corporate social performance (CSP) on the corporate financial performance (CFP) of multinational companies (MNCs) in the fast-moving consumer goods (FMCG) industry. The analysis is conducted using data on a panel of 24 FMCG companies during the period 2005–2020. Nine regression models using Return on Equity (ROE), Return on Assets (ROA), and Net Margin as measures of CFP explore the CSP-CFP relationship. Moreover, this study investigates if integrated reporting has a moderating effect on the CSP-CFP relationship insofar as MNCs that use integrated reporting will be more likely to improve their financial performance through shared value creation than MNCs that do not use integrated reporting. Basing its results on multiple linear regression analyses, this research finds that CSP (as measured by the Refinitiv ESG score) has a positive effect on CFP (as measured by ROA and ROE). These findings reveal that there are statistically significant ($p < .001$) relationships between ESG and ROE (unstandardized coefficient = .488) and ESG and ROA (unstandardized coefficient =.119).

Keywords: corporate social responsibility (CSR), corporate social performance (CSP), corporate financial performance (CFP), creating shared value (CSV), environmental social and governance (ESG), integrated reporting (<IR>), stakeholder theory

Abstrato

Título: Criação de Valor Partilhado através de Relatórios Integrados na Indústria de Bens de Grande Consumo (FMCG) - Uma Análise do Efeito do Desempenho Social Empresarial (CSP) no Desempenho Financeiro Empresarial (CFP) das Empresas Multinacionais

Autor: Elisa Becher

Esta tese examina o efeito do desempenho social empresarial (CSP) no desempenho financeiro empresarial (CFP) das empresas multinacionais no sector dos bens de consumo de rápida evolução. A análise é realizada utilizando dados de um painel de 24 empresas de bens de grande consumo durante o período de 2005 a 2020. Nove modelos de regressão que usam ROE, ROA, e Margem Líquida como medidas de CFP exploram a relação CSP-CFP. Além disso, este estudo investiga se os relatórios integrados têm um efeito moderador na relação CSP-CFP, na medida em que os MNCs que utilizam relatórios integrados terão mais probabilidades de melhorar o seu desempenho financeiro através da criação de valor partilhado, do que os MNCs que não utilizam relatórios integrados. Baseando os seus resultados em análises de regressão linear múltipla, esta investigação conclui que a CSP (medida pela pontuação Refinitiv ESG) tem um efeito positivo na CFP (medida pela ROA e ROE). Estes resultados revelam que existem relações estatisticamente significativas ($p < .001$) entre ESG e ROE (coeficiente não normalizado = .488) e ESG e ROA (coeficiente não normalizado =.119).

Palavras-chave: responsabilidade social das empresas, desempenho social das empresas, desempenho financeiro das empresas, criação de valor partilhado, social e governação ambiental, relatórios integrados, teoria das partes interessadas

I. List of Content

II. List of Abbreviations

<IR>	Integrated Reporting
CAGR	Compound Annual Growth Rate
CFP	Corporate Financial Performance
CPA	Critical Perspectives on Accounting
CR	Corporate Reputation
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CSV	Creating Shared Value
EAA	European Accounting Association
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EPS	Earnings Per Share
ESG	Environmental, Social and Governance
EVA	Economic Value Added
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
GRI	Global Reporting Initiative
H1	Hypothesis 1
H2	Hypothesis 2
IIRC	International Integrated Reporting Council
IPA	Interdisciplinary Perspectives on Accounting
IRQ	Integrated Reporting Quality
JSE	Johannesburg Stock Exchange
KLD	Kinder, Lydenberg, Domini
MDGs	Millennium Development Goals
MNC	Multinational Company

NIPE	Net Income Per Employee
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SASB	Sustainability Accounting Standards Board
SD	Standard Deviation
SDGs	Sustainable Development Goals
SET	Stock Exchange of Thailand
UNGC	United Nations Global Compact
VIF	Variance Inflation Factor
WBCSD	World Business Council for Sustainable Development

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1. Introduction

The first chapter will discuss the topic's relevance and the need to address it. Subsequently, the research objective and research question will be defined. Lastly, it will be explained how this thesis contributes to the existing literature.

1.1 Relevance and Problem Statement

Nowadays, climate change is broadly defined as one of the fundamental challenges of our times (European Environment Agency, 2020; NASA, 2020; United Nations, 2020). In this context, multinational companies (MNCs) worldwide have launched various corporate social responsibility (CSR) initiatives to address environmental, social, and governance (ESG) concerns. Although most MNCs have adopted the Global Reporting Initiative's (GRI) sustainable reporting standards and track their ESG progress in non-financial statements, only a few firms combine ESG and business results in so-called integrated reports. The International Integrated Reporting Council (2021, p. 5) characterizes an integrated report as follows: "it communicates how an organization's strategy, governance, performance, and prospects, in the context of its external environment, create preserve or erode value in the short, medium and long term." According to Porter et al. (2012), companies implementing measurement approaches that link social and business activities can maximize shared value. In a continually changing environment, the business concept of Creating Shared Value (CSV) suggests a new form of generating economic value while at the same time addressing societal needs and challenges (Porter & Kramer, 2011). Hence, Porter and Kramer (2011) assert that "the opportunity to create economic value through creating societal value will be one of the most powerful forces driving growth in the global economy." (Porter & Kramer, 2011, p. 75).

Faced with a growing need to address social and environmental issues, it is crucial to analyze whether ESG initiatives positively, negatively, or neutrally influence the global financial performance of MNCs. Furthermore, it is of interest to investigate whether this potential relationship is stronger for MNCs that link business and social results in integrated reports than firms that publish both a financial and a non-financial report.

1.2 Research Objective and Research Question

The main research objective of this thesis is to assess the impact of corporate social performance (X) on MNCs' global financial performance (Y). In other terms, this research will evaluate if corporate financial performance (CFP) is influenced by corporate social performance (CSP) and analyze the magnitude and significance of this relationship. Furthermore, it is of interest to determine whether the CSP-CFP relationship is stronger for companies that use integrated reporting than for companies that publish both a financial and a non-financial report separately. Hence, this thesis will also explore if the usage of integrated reporting has a moderator effect on the relationship between CSP and financial performance. Basing its results on multiple linear regression analyses, this thesis has the objective to answer the following research question: *'To which extent does Corporate Social Performance (CSP) influence the financial performance of Multinational Companies in the fast-moving consumer goods (FMCG) industry?'*.

1.3 Contribution to Existing Literature

This thesis contributes to the existing literature in multiple ways. To the knowledge of the author, this thesis is the first to explore whether the use of integrated reporting will moderate the CSP-CFP relationship. Unlike previous studies (see Chapter 2.6), this analysis differentiates between companies using integrated reporting and those publishing financial and non-financial reports separately to measure a possible moderator effect. Also, as far as the author knows, no other thesis has analyzed the relationship between ESG (as measured by the Refinitiv ESG score) and CFP (as measured by Return on Equity, Return on Assets, and Net Margin) for FMCG companies during 2005-2020. Thus, the choice of the population and the period enable this research to provide new empirical evidence in the field of corporate social performance.

1.4 Outline of the Thesis

The rest of the thesis will be structured as follows. First, the thesis will review relevant literature focusing on the concepts of corporate social responsibility (CSR), creating shared value (CSV), integrated reporting (<IR>), corporate financial performance (CFP), and multinational companies (MNCs) in the fast-moving consumer goods (FMGC) industry. Moreover, previous research closely related to the research question will be presented. The third chapter will assess the conceptual framework. Based on theoretical frameworks, two hypotheses will be derived. The subsequent section will describe the methodology, including the research design, the

measurement protocol, and the statistical method. In the fifth chapter, the results of the regression analyses will be discussed. Consequently, the developed hypotheses will be confirmed or rejected. Lastly, theoretical and practical implications, limitations of the research, and future outlooks will conclude the thesis.

2. Literature Review

This chapter will discuss the relevant literature on the topics of corporate social responsibility (CSR), creating shared value (CSV), integrated reporting (<IR>), corporate financial performance (CFP), and multinational companies (MNCs) in the fast-moving consumer goods (FMCG) industry. Moreover, previous studies closely linked to the research question will be reviewed.

2.1 Corporate Social Responsibility

The concept of CSR has been discussed extensively in the literature. The modern understanding of CSR has a long history rooted in the debates around the social responsibilities of the private sector in the 1930s (Latapí Agudelo et al., 2019). Since then, CSR definitions have developed over time and reflected the *zeitgeist* of specific decades. Thus, the term CSR can be seen as "dynamic, overlapping and contextual" (Gond & Moon, 2011, p. 3).

In the 1930s, scholars acknowledged that executives had a certain social responsibility (Barnard, 1938; Kreps, 1940). This responsibility to society is generally referred to as corporate social responsibility until the recent days (Motilewa et al., 2016). However, according to Carroll (2008), CSR is mainly a product from the 1950s up to the present time. The first to define what the social responsibilities of executives were, was Bowen in the 1950s. Bowen (1953) was convinced that corporations accumulated great power and that their actions tangibly influenced society. Therefore, Bowen (1953) stated that the responsibilities of executives should involve making decisions based on societal values and suggested to include the corporation's impact on society in the decision-making process. According to Bowen (1953), the social responsibilities of executives can be characterized as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society." (p. 6).

During the 1960s, more and more scholars recognized the relevance of linking businesses and society (Frederick, 1960; Davis, 1960). For instance, Davis (1960) defined CSR as: "Businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest." (p. 70). Nonetheless, the focus remained above all on profit maximization, and for many years, CSR was solely philanthropic. Hence, corporations focused on giving 'charity' to society (Motilewa et al., 2016).

In the 1970s, we saw a development toward improved human and labor rights (Latapí Agudelo et al., 2019). Moreover, scholars started including a multi-stakeholder perspective in the discussion around CSR. For instance, Johnson (1971) described CSR as "A socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation." (p. 50).

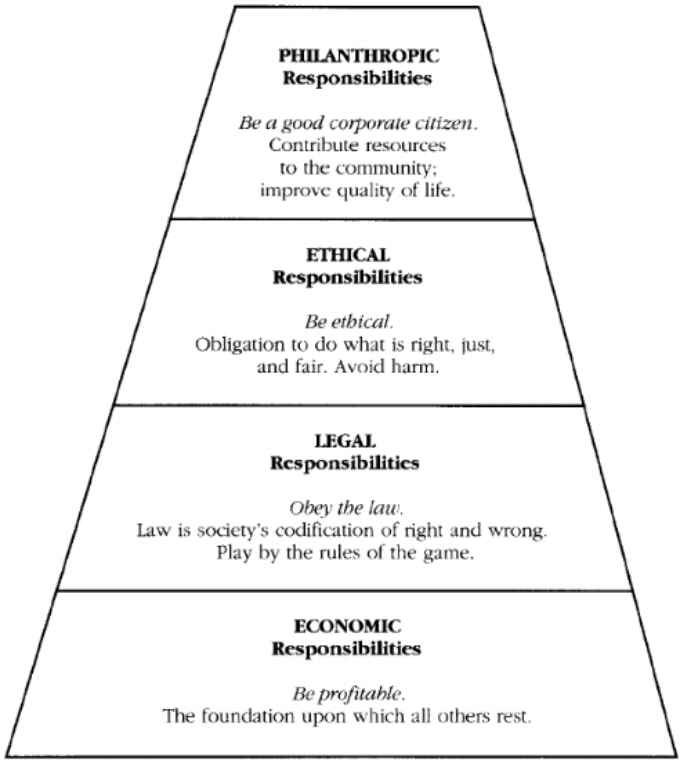
Carroll then introduced the first unified and broadly acknowledged definition of CSR in 1979. Carroll (1979) defined CSR as "[…] the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time." Hence, he suggested that four kinds of social responsibilities constitute total CSR: economic, legal, ethical, and philanthropic (Carroll, 1979). Carroll construed that both economic and social objectives are integral aspects of a business framework and should not be seen as conflicting. Thus, the discussion about CSR shifted towards a managerial approach to CSR that recommended forecasting and organizing for CSR.

Based on Carroll's work, CSR was more and more operationalized in the 1980s. Indeed, during this period, CSR became characterized as a decision-making process (e.g., Jones 1980), and several frameworks for its implementation were developed (e.g., Tuzzolino & Armandi 1981). The 1980s were also a period of worldwide reported ethical scandals, such as the 1984 Union Carbide Bhopal explosion in India, killing thousands of workers, and the controversy over companies doing business in South Africa (Carroll, 2008). Alternative constructs to CSR were also proposed, such as stakeholder theory and business ethics (Freeman, 1984). The stakeholder theory led to wide controversies, especially in the context of the so-called "Freeman vs. Friedman" debate which presented two different views on the responsibilities of companies. While Freeman's Stakeholder Theory states that a firm has responsibilities towards all stakeholders such as employees, stockholders, and suppliers, Friedman (1970) asserted that "The social responsibility of business is to increase its profits." Chapter 2.1.3 will further elaborate on Freeman's Stakeholder Theory.

In the 1990s, international agreements on sustainable development were adopted worldwide, which emphasized the general increase in awareness around the topic of CSR. In 1990, the European Environmental Agency was created, and in 1992, the UN summit on the Environment and Development took place in Rio de Janeiro. Latter was then converted into the adoption of the Agenda 21 and the United Nations Framework Convention on Climate Change (UNFCCC). In 1991, Carroll proposed the pyramid of CSR, as shown in Figure 1. His four categories of

CSR form the basis of his well-known pyramid of CSR, which defines key responsibilities for corporations. In 1996, Burke and Logsdon (1996) started the debate around the strategic use of CSR. They suggested that strategic CSR can lead to value creation with economic benefits for the company. Nonetheless, by the end of the decade, no globally accepted definition of the concept of CSR existed (Lantos, 2001). Unclear boundaries between CSR and similar concepts such as stakeholder theory and corporate citizenship resulted in the blending of constructs. In this context, the Business for Social Responsibility (BSR) (1992) characterized CSR rather broadly and noted that CSR is often used interchangeably with topics such as business ethics, corporate accountability, sustainability, and corporate citizenship.

Figure 1: Carroll's Pyramid of Corporate Social Responsibility



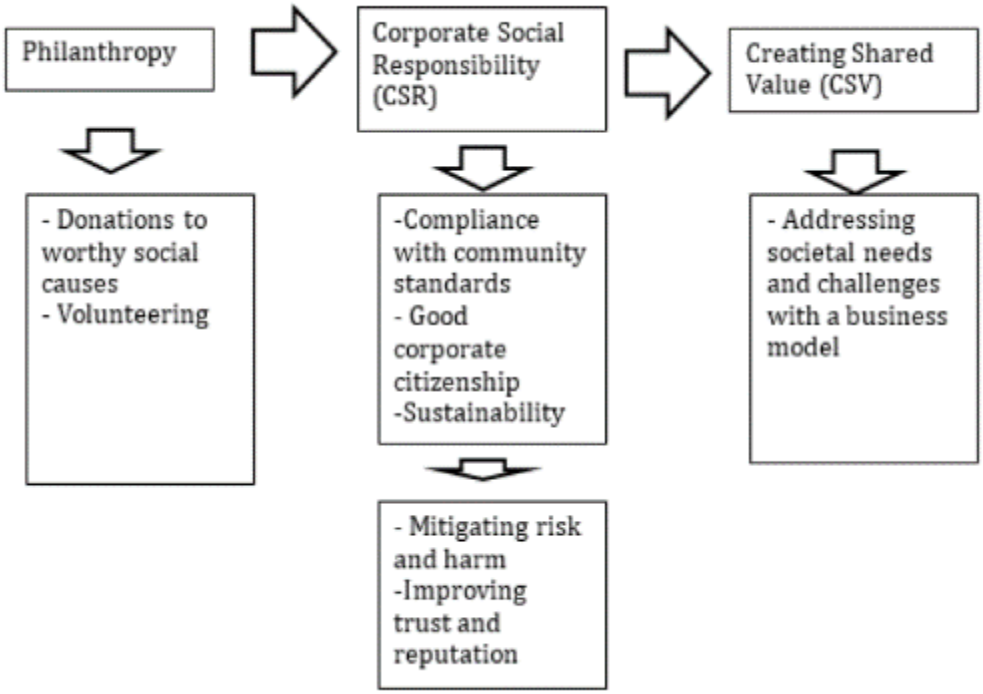
Note: Carroll, 1991, p. 42

In 2000, the implementation of the Millennium Development Goals (MDGs) and the United Nations Global Compact (UNGC) stressed broader responsibilities of companies in terms of human and labor rights, anti-corruption, and the environment. Indeed, in the 2000s, the academic and corporate world shifted towards the idea that corporations had a new role in

society. As a result, firms were supposed to respond to social expectations and make strategic decisions to meet these expectations (Werther & Chandler, 2005). In consideration of the economic benefits of CSR, the discussion around strategic CSR advanced into the concept of generating shared value (Porter & Kramer, 2006, 2011) which will be further induced in Chapter 2.2.

In 2015, the Paris Agreement and the Sustainable Development Goals (SDGs) demonstrated a new social contract between companies and society. Since then, MNCs have been expected to play a crucial role in implementing the SDGs. In the literature, the concept of CSR has remained focused on the opportunity to generate shared value. Figure 2 illustrates CSR development from a pure philanthropic approach toward Creating Shared Value (CSV).

Figure 2: Development of Corporate Social Responsibility toward Creating Shared Value



Note: Motilewa et al., 2016, p. 2690

In recent years, CSR has emerged as a top priority for MNCs worldwide as governments, the media, activist groups, and consumers have become increasingly aware of a firm's CSR actions. Faced with boycotts, protests, and other negative impacts on their businesses, MNCs'

engagement in CSR has not been completely voluntary. Publications on companies' social and environmental performance in the form of ratings have proven to be a powerful method to influence corporate behavior (Porter & Kramer, 2016, p. 81). Hence, society and the public are increasingly important in shaping our current understanding of CSR. Moreover, CSR trends show that social responsibility nowadays has an ethical and a business component (Carroll, 2008). Carroll (2008) stated that "CSR can be sustainable only so long as it continues to add value to corporate success." (p. 16).

This shift towards a more comprehensive acceptance and prioritization of CSR can also be seen in the financial world. In 2018, Larry Fink, current CEO of Blackrock, stated in his annual letter to CEOs: "Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth" (p. 1). Since 2018, Fink has included the discussion about sustainability, climate change, purpose, and CSR in every annual letter published by the global investment manager (Fink, 2019; Fink, 2020; Fink, 2021; Fink, 2022).

2.1.1 Responses to Corporate Social Responsibility and Criticism

Although the notion of CSR has become an indispensable part of literature, some scholars are skeptical of the concept of CSR. Notably, Friedman (1962; 1970) declared that the role of corporations in a free capitalist system should be limited to the pursuit of economic objectives. According to Friedman (1970), CSR activities are an inappropriate use of a company's resources. Hence, spending on CSR initiatives is an unjustifiable expenditure of money for society (Latapí Agudelo et al., 2019). Aligned with Friedman, several authors argued that firms should participate only in activities that generate profit (e.g., Jensen, 2000; Pedersen, 2014). They state that as CSR initiatives are financed from the business's profits, it violates the goal of profit maximization (Jensen, 2000; Pedersen, 2014).

Similarly, Karnani (2011) claimed that in most cases where companies proclaim to be socially responsible, they act to achieve profit-maximizing. For instance, he gave the example of a manufacturer who, driven by profit maximization, will equip cars with increased fuel efficiency and probably proclaim to be socially responsible. In this context, Karnani (2011) differentiates between zones of opportunity, where social benefits and profits are aligned together and thus, CSR is not necessary, and zones of trade-off, where there is discord between social benefits and

profits. He pointed out that “in the trade-off zone, there is a conflict between private profits and social welfare, and it is impossible to do well by doing good” (Karnani, 2011, p. 82). He summarized his arguments as “in the zone of opportunity, CSR is irrelevant; in the zone of trade-off, CSR is ineffective” (Karnani, 2001, p. 83).

Another argument against CSR is that a firm’s involvement with social issues will give companies more power than they would otherwise have (Motilewa et al., 2016). As MNCs increasingly gain influence due to globalization, extending this influence by engaging in local communities will concentrate even more power in the hands of firms. Levitt (1958) formulated it as follows: "Government's job is not business, and business's job is not government.” (p. 139).

Additionally, scholars argued that there is a lack of managerial skills in managing social responsibility (Motilewa et al., 2016). In general, companies should avoid controversial causes as engaging in the wrong CSR activities can backfire (Lantos, 2001). As more and more stakeholders are becoming interested in a firm’s CSR initiatives, it becomes increasingly difficult to avoid offending at least one stakeholder (Carroll, 2008).

While Karnani (2011) stated that it is impossible to do well by doing good, Porter and Kramer (2006) provided a contrary perspective, still criticizing the CSR concept. Porter and Kramer (2006) stated that although many MNCs have invested heavily in CSR initiatives in the past decades, these efforts could have been far more productive. They argued that shared value creation should be the governing principle of the companies' involvement in CSR and identified two main reasons for the lack of CSR productivity: First, companies put the business in opposition to society, despite their interconnectedness. Second, firms apply the concept of CSR in a too generic way rather than adapting it to the firm’s strategy (Porter & Kramer, 2006). Thus, the concept of CSR is often criticized as too abstract for business practices (Karnani, 2011).

Lastly, Porter and Kramer (2011) also asserted that CSR programs focus primarily on reputational issues and are only limitedly connected to the company’s core business (p. 76). Consequently, it is harder for firms to justify CSR investments over the long run. Moreover, this general approach to CSR might lead to firms failing to benefit from opportunities to advance society (Porter & Kramer, 2006, p. 80).

2.1.2 Business Benefits of Corporate Social Responsibility

Although certain critical voices question the impact of CSR on financial success, as presented in the previous chapter, the majority of scholars believe in the business benefits of CSR. To assess the CSR-financial performance relationship, understanding the potential business benefits that MNCs can expect from their CSR engagement is crucial. According to Weber (2008), CSR initiatives can lead to monetary and non-monetary business benefits that can affect a firm's competitiveness and economic success. Figure 3 provides an overview of these benefits by dividing them into categories based on the nature of benefits (monetary and non-monetary) and the nature of indicators (qualitative and quantitative) (Weber, 2008).

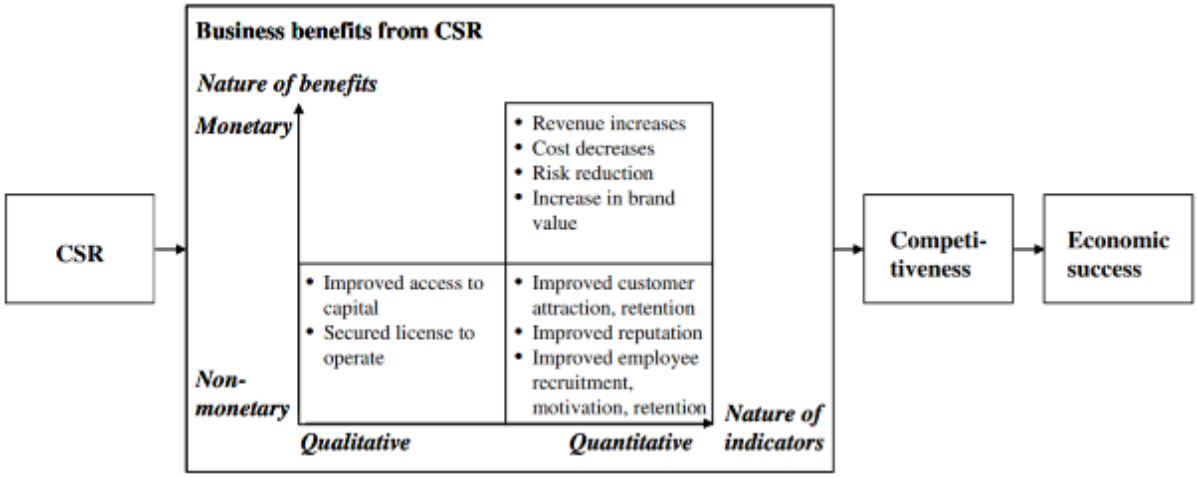
As specified by Weber (2008), monetary CSR advantages involve (a) revenue increases, (b) cost decreases, (c) risk reduction, and (d) increases in brand value. First, MNCs can increase their revenue because of higher sales and market share. For instance, CSR-driven products or services can directly improve the number of total sales (Weber, 2008). Second, cost savings can arise from efficiency gains due to a reduction of input materials or the substitution of certain unsustainable or inefficient resources (Epstein & Roy, 2001). Additionally, firms could save costs due to improved relationships with certain stakeholders (Epstein & Roy, 2001). Thus, CSR can reduce risk or/ and improve CSR-related risk management as stakeholder engagement can avoid negative press or customer or NGO boycotts (Weber, 2008). Lastly, CSR can positively affect a company's image and reputation and increase its brand value.

As per Weber (2008), the second area of business benefits is non-monetary benefits that can be analyzed qualitatively. This category includes improved access to capital and securing a company's operating license (Weber, 2008). A firm receives its right to operate from acceptance within society. Hence, companies can influence their relationship with society by engaging with various stakeholders through CSR initiatives. Similarly, effective stakeholder management can improve access to capital (Weber, 2008).

The last category is non-monetary benefits that quantitative indicators can measure. This classification consists of an improved (a) reputation and image, (b) employee recruitment, motivation, and retention, and (c) customer attraction and retention (Weber, 2008). First, a company's reputation and corporate image are formed through the consumer's personal experience influenced by communication messages. While a company's reputation develops over time, the corporate image can adapt rather fast as it represents "the mental picture of the company held by its audiences" (Gray & Balmer, 1998, p. 696). Schwaiger (2004) stated that CSR could affect communication with stakeholders, thus improving an MNC's image and

reputation. As a result, corporate image and reputation can foster a firm's competitiveness (Gray & Balmer, 1998). Second, an improved firm reputation due to CSR initiatives can positively affect employee motivation, retention, and recruitment (Weber, 2008). Moreover, CSR involvement can also directly affect employees as it might attract talent that is motivated to work in a better working environment and wants to "do good." Similarly, CSR can foster customer attraction and retention (Weber, 2008).

Figure 3: Corporate Social Responsibility Impact



Note: Weber, 2008, p. 250

2.1.3 Stakeholder Theory and Criticism

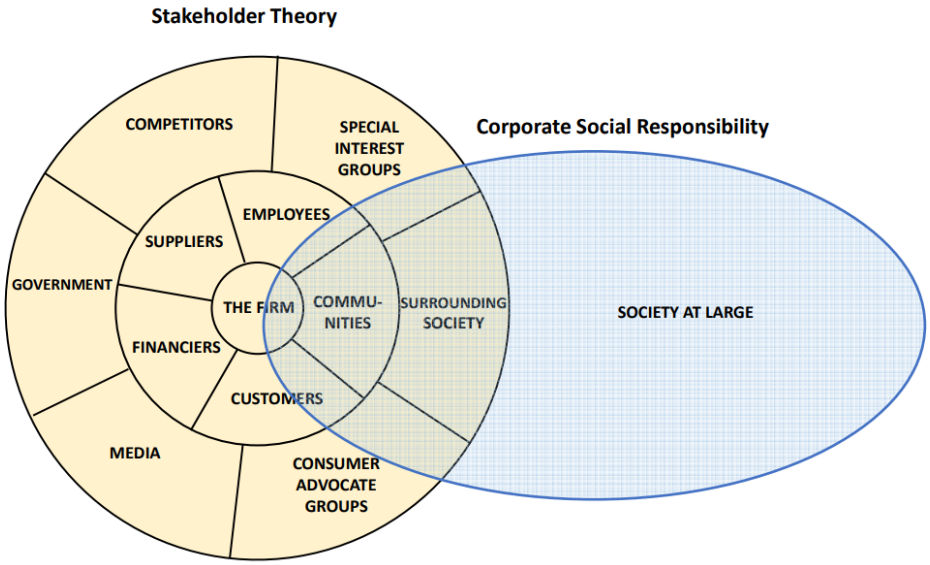
Stakeholder theory, first introduced by Freeman (1984), is a prominent managerial approach stating that businesses are inevitably interconnected with various stakeholders, including employees, suppliers, and communities. The theory is rooted in the concept of stakeholders, first mentioned by the Stanford Research Institute (now SRI International, Inc) in 1963. Stanford Research Institute (1963) characterized stakeholders as groups without whose support the organization would not be able to exist. Freeman (1984) defined stakeholders as "any group or individual who can affect or is affected by the achievement of an organization's objectives." (p. 46). According to Clarkson (1995), stakeholders can be subdivided into two groups: primary and secondary stakeholders. As primary stakeholders, Clarkson (1995) considered groups with formal contractual relationships with the company, e.g., suppliers, employees, and shareholders. Secondary stakeholders are those without such contracts, e.g., the local community or government authorities (Clarkson, 1995). Over the years, the stakeholder concept

has developed toward a more dynamic relationship between the firm and its stakeholders (Pedrini & Ferri, 2019). For instance, Freeman (1984) described a company as the convergence of numerous expectations that influence a firm's strategy. Freeman's work can be seen as the turning point toward stakeholder management that focuses on the methods firms can apply to organize their relationships with different stakeholders to fulfill stakeholder expectations (Habisch et al., 2011).

Stakeholder theory declares that companies should create value for all stakeholders, not for the firm's shareholders solely (Freeman, 1984). Hence, profit maximization is not defined as the only objective of a company's activity. Instead, firms need to achieve an equilibrium among stakeholders' expectations as a necessary condition for the mid-long-term success of the company (Clarkson, 1995). To reach a stakeholder equilibrium, companies must develop a managerial approach to ensure durable and sustainable ties with various stakeholder groups (Freeman, 1999). Although originally seen as a contrasting view to Friedman's shareholder concept (1970), more recently, scholars have acknowledged that profit and stakeholders' satisfaction are mutually beneficial objectives (Berman et al., 1999).

As stakeholder theory includes elements such as purpose, value creation, and stakeholder interdependence, it is often discussed in the same context as CSR. Although these two concepts are deeply interconnected and include common elements, Freeman and Dmytriyev (2017) define stakeholder theory and CSR as distinct concepts with a certain overlap. While stakeholder theory emphasizes the key responsibilities of the business overall, CSR prioritizes only one aspect of business, its social orientation (Freeman & Dmytriyev, 2017). Hence, in stakeholder theory, "responsibility to the society (which is often represented by the communities where a business operates) is a very important but only one part among other corporate responsibilities." (Freeman & Dmytriyev, 2017, p. 10). In other terms, stakeholder theory emphasizes that the essence of business lies in relationships and creating value for all stakeholders. All stakeholders are equally important to the company, and executives should find ways to align stakeholders' interests (Freeman & Dmytriyev, 2017). In contrast, CSR tends to focus on a company's initiatives oriented toward society at large. Thus, differently from stakeholder theory, CSR does not aim to explain what business in its entirety is about (Freeman & Dmytriyev, 2017). Despite these differences, "both stakeholder theory and CSR stress the importance of company responsibility toward communities and society." (Freeman & Dmytriyev, 2017, p. 10). Thus, both concepts focus on including societal interests in business decisions. The relationship between stakeholder theory and CSR is illustrated in Figure 4.

Figure 4: The Relationship between Stakeholder Theory and Corporate Social Responsibility



Note: Freeman & Dmytriyev, 2017, p. 11

Since its publication, stakeholder theory has undergone rapid growth with ongoing research (Mainardes et al., 2011). However, to this date, literature presents inconsistent opinions about stakeholder theory. First, Key (1999) stated that "Freeman focuses on technique rather than theory." (p. 320). She criticized that stakeholder theory provides management with a strategic tool but fails to provide an adequate theoretical basis (Key, 1999). In this context, Key (1999) emphasized that Freeman accurately states that the economic model no longer correctly describes company behavior but does not provide an alternative himself.

Second, some academics have identified the vagueness and ambiguity of this theory as a point of discussion (Mainardes et al., 2011). For instance, Key (1999) stated that "beyond the concept of 'affect/affected by,' Freeman's work does not sufficiently address the dynamics which link the firm to the stakeholders which are identified." (p. 321). Hence, the author suggested that the description of this linkage should be more precisely addressed (Key, 1999).

Another criticism is that Freeman (1984) introduced a new framework that lacks causality or any logic of development to connect the variables (Mainardes et al., 2011). Donaldson and Dunfee (1994) and Jones (1995) were the first to work on identifying this logic. These authors suggested that contract theory is the basis for stakeholder relationships (Donaldson & Dunfee, 1994; Jones, 1995).

Additionally, one of the main points of controversy around stakeholder theory is not a criticism of the theory but rather of the term stakeholder (Mainardes et al., 2011). For instance, Jones and Wicks (1999) stated that the term stakeholder is essentially relatively vague. Clarkson (1994) noticed that terms such as 'stakeholders,' 'stakeholder management, and 'stakeholder model' were defined and used differently. Moreover, Rowley (1997) criticized that stakeholder theory proposes that stakeholder groups must be adequately separated as different entities. However, according to the author, separating entities would result in a loss of complexity in their real relationships (Rowley, 1997).

2.1.4 Measurements of Corporate Social Performance

In the literature, the concept of Corporate Social Performance (CSP) is characterized as an extension of the CSR concept that highlights *actual results achieved* (Carroll, 2018). While CSR refers to the general assumption that businesses have a responsibility to society, CSP is a development of the concept of CSR that prioritizes results achieved rather than the common belief system of businesses' responsibility (Carroll, 2018). Traditional CSP measures include (a) sustainability indicators, (b) impact assessments, (c) compliance evaluations, and (d) reputation measurements (Porter et al., 2012, p. 12). Table 1 provides an overview of the main differences between the various measurements of CSP.

As per Porter et al. (2012), the first category, sustainability indicators, is widely used in most MNCs worldwide. The most well-known guidelines to measure a company's sustainability performance are the Global Reporting Initiative's (GRI) voluntary sustainability standards. The GRI standards enable companies to "understand and report on their impacts on the economy, environment, and people comparably and credibly, thereby increasing transparency on their contribution to sustainable development" (GRI, 2021). Hence, the GRI standards help firms to take responsibility for their impacts by publishing a common language for reporting on their ESG investments (GRI, 2021). For instance, the GRI standards support companies in measuring their progress among ESG indicators such as reducing water usage or CO2 emissions. ESG indicators are broadly available in companies' sustainability or so-called non-financial reports. For example, funds that invest according to ESG principles attracted $71.1 billion globally between April and June 2020, despite the Covid-19 crisis (Berg et al., 2020). This increased assets under management in these funds to an all-time high of over $1 trillion (Berg et al., 2020). While more than 3,500 organizations use the GRI framework, most MNCs do not understand how ESG indicators impact their business results (Porter et al., 2012). Moreover, a key issue

for researchers and investors is the measurement of an MNC's 'ESG quality' (Berg et al., 2020). More precisely, it is challenging to identify how well a company performs with respect to ESG criteria. To face this challenge, the usage of ESG scores or ratings created by professional data providers has increased over the years (Berg et al., 2020). Leading providers of such scores include MSCI, Sustainalytics (acquired by Morningstar), Thomson Reuters Refinitiv ESG (formerly ASSET4), Vigeo-Eiris (acquired by Moody's), and S&P Global (formerly RobecoSAM) (Berg et al., 2020).

The second type of social impact measurement is impact assessments. They aim to show stakeholders that a firm's CSR initiatives have positively impacted communities. These indicators are often retrospective and do not demonstrate a linkage between social and financial performance (Porter et al., 2012).

The third category, compliance evaluations, provides information on whether MNCs meet laws, policies, and standards in their countries of operations. As can be seen in Carroll's (1991) pyramid of CSR, legal responsibilities form one of the bases for any business activity as they are required by society. Hence, the main goal of compliance evaluation is to maintain a license to operate (Porter et al., 2012).

The last classification is reputation measurements. As specified by Chun (2005), "Corporate reputation affects the way in which various stakeholders behave towards an organization, influencing, for example, employee retention, customer satisfaction and customer loyalty." (p. 91). These assessments are typically based on perception surveys and metrics that assess how the company's efforts increased its reputation (Porter et al., 2012). Common reputation measurements include ranking measures, brand equity scales, image measures, and identity measures (Chun, 2005).

The most broadly available CSP measure are sustainability indicators based on ESG criteria. ESG measures enable stakeholders to access the company's environmental and social engagement against rather objective criteria. Consequently, ESG is an important component of companies' strategy (Aouadi & Marsat, 2018; Brooks & Oikonomou, 2018; Rabaya & Saleh, 2021).

Table 1: Corporate Social Performance Measurements Comparison

Measurement Focus	What to measure?	Why measure?	For whom?
Sustainability	Efficiency in the use of input factors and improved product and community impacts	Minimize negative externalities and augment positive impacts. Maintain a license to operate	Management. Communication to external stakeholders
Impact Assessment	The long term social and economic development impacts of operations and philanthropy	Track progress on social and economic development impact. Maintain a license to operate	Communication to external stakeholders
Compliance	Compliance with laws and voluntary policies, standards, and codes	Ensure adoption and compliance. Maintain a license to operate	Management. Communication to external stakeholders
Reputation	How societal impacts contribute to company reputation	Manage reputation	Primarily for management

Note: Adapted from Porter et al., 2012, p. 12

2.1.5 Environmental Social Governance Disclosure

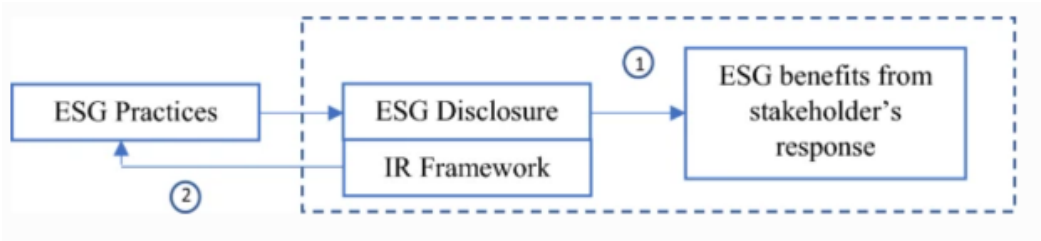
As sustainability indicators based on ESG disclosure are the most common measures of CSP, it is of interest to further examine ESG reporting. This thesis defines ESG as context-specific practices and processes that enable an MNC to align the company's actions with stakeholders' expectations. ESG engagement can lead to numerous company benefits such as improved credit ratings (Attig et al., 2013), forecast accuracy, and company performance due to a reduction of information asymmetry (e.g., Mervelskemper & Streit, 2017; Brooks & Oikonomou, 2018). Furthermore, ESG practices foster stakeholder engagement (De Falco et al., 2018; Rabaya & Saleh, 2021). ESG information needs to be communicated effectively to stakeholders to achieve these results.

There are various channels for reporting ESG information. According to the World Business Council for Sustainable Development (WDCSD) (2019), the predominant channels are (a) mainstream reports, (b) sustainability reports, and (c) integrated reports. Mainstream reports are the annual reporting packages that organizations must publish under the law to provide financial information to existing and prospective investors (WDCSD, 2019). In contrast,

sustainability reports are issued by companies to inform about the ESG impacts caused by the MNC's everyday activities (GRI, 2021). However, nowadays, there seems to be a lack of ESG disclosure as the stakeholders' need for information about the MNC's past and future performance is often not sufficiently met (Bernardi & Stark, 2018; Li et al., 2018). Integrated reporting aims at closing this gap between stakeholders' expectations and an MNC's publications. While financial reports focus primarily on monetary information, and sustainability reports aim at communicating the company's ESG impact, integrated reports link business and social results (Porter & Kramer, 2011). Hence, integrated reporting (<IR>) demonstrates how an organization creates value over time for providers of financial capital.

The relation between ESG practices, ESG disclosure, and ESG benefits from stakeholders' responses, is shown in Figure 5 (Rabaya & Saleh, 2021). Path 1 illustrates that ESG disclosure can support a strong relationship among important stakeholder groups by guaranteeing company legitimacy and communicating the firm's long-run competitive advantage (Rabaya & Saleh, 2021). Path 2 indicates that ESG disclosure using the <IR> framework may enable stakeholders to understand the business and its potential. Applying the <IR> framework improves business value creation in this context. Moreover, <IR> facilitates the integration of ESG practices at the planning stage (Rabaya & Saleh, 2021). As <IR> seems to be of utmost importance for successfully implementing ESG practices and disclosing ESG-related data, <IR> will be explained in detail in Chapter 2.3.

Figure 5: The Relation Between ESG Practices, ESG Disclosure, and ESG Benefits



Note: Rabaya & Saleh, 2021, p. 4

2.2 Creating Shared Value

Creating shared value (CSV) is a business concept introduced by Porter and Kramer (2006) that focuses on the link between a firm's social engagement and economic performance. CSV aims to create economic value while simultaneously addressing societal needs and challenges (Porter & Kramer, 2011). Hence, the objective of the CSV paradigm is to replace the traditional short-term-oriented perspective of firms on profit maximization with a wider long-term perspective that includes both societal and corporate goals (Høvring, 2017).

Porter and Kramer (2011) emphasize that CSV is not philanthropy, social responsibility, or sustainability but a new business concept to increase a company's economic performance. Therefore, it differs from the neoclassical view that indicates that social improvements necessarily constrain the firm, such as an increase in costs, which reduces the company's profitability. Instead, CSV acknowledges that markets are not only defined by economic needs but also by societal needs, as successful companies need a healthy society (Porter & Kramer, 2011). For instance, health care and education are necessary for a productive workforce; safe working conditions reduce firms' internal costs of accidents; and more efficient utilization of natural resources makes companies more productive (Porter & Kramer, 2006). Consequently, addressing societal harms can result in innovation and an increase in profits. As stated by Wachira (2019), "Societal needs, not just conventional economic needs, define markets, and social harms can create internal costs for firms." (p. 1).

At the same time, CSV implies that a healthy society also needs successful companies. No social initiative can exceed the business sector regarding creating jobs, wealth, and innovation (Porter & Kramer, 2006). Porter and Kramer (2011) use the example of underprivileged farmers in developing countries to illustrate the concept of CSV: CSV does not mean to pay poor farmers higher prices for the same crops to improve the proportion of revenue that goes to the farmers. Instead, CSV aims to develop new growing techniques for crops and strengthen the local cluster of supporting suppliers. These measures will increase profits for the farmers and the company (p. 65).

The mutual dependency of companies and society emphasizes the importance of shared value. It indicates that both business and social decisions must be rooted in the principle of shared value (Porter and Kramer, 2006, p. 84). A temporary win for one will weaken the long-term success of both. Hence, Porter and Kramer (2011) state that "not all profit is equal" (p. 75). They specify that profits that include a social purpose are a higher form of capitalism. These

profits will allow society to advance more rapidly while enabling firms to continue to grow (p. 75). According to Porter and Kramer (2011), "companies must take the lead in bringing business and society back together." (p. 64).

Porter and Kramer (2011) define three levels on which shared value can be pursued: (a) redefining productivity in the value chain, (b) reconceiving products and markets, and (c) enabling cluster development (p. 67). Shared value creation by improving productivity among the value chain can be achieved due to redefining internal operations. A firm's value chain necessarily touches upon various social issues such as natural resource and water use, working conditions of employees, and equality at the workplace (Porter & Kramer, 2011, p. 68). Creating shared value can be achieved because societal issues often inflict costs on the company. Hence, redefining internal operations can lead to cutting costs, improving quality and input access, investing in employees and supplier capabilities, and increasing productivity (Porter et al., 2012). Latter can be reached through environmental improvements or more efficient resource utilization.

Creating shared value from reconceiving products and markets aims at increasing revenue, profitability, and market share due to the development benefits of a firm’s products and services. Development benefits can be of environmental, social, or economic nature (Porter et al., 2012, p. 3). This method of CSV is rooted in an increase in demand for products and services that meet societal needs in advanced economies (Porter & Kramer, 2011, p. 67). In recent years companies have started to focus on products and services good for customers. For instance, food companies shift from focusing on taste and quantity to including better nutrition in the equation. This way, both economic and societal value can be maximized.

Lastly, shared value can arise from enabling local cluster development, which focuses on advancing a company's external environment. This involves supporting local suppliers and improving the local infrastructure to further strive for productivity (Porter et al., 2012, p. 3). The fundamental idea behind this level of shared value creation is that no company is self-contained but depends on supporting companies and its infrastructure (Porter and Kramer, 2011, p. 72). Hence, an MNC can create shared value by addressing gaps in its local cluster resulting in improved productivity.

A summary of the three levels of shared value can be found in Table 2.

Table 2: Three Levels of Shared Value

Levels of shared value	Business results	Social results
Reconceiving product and markets	- Increased revenue - Increased market share - Increased market growth - Increased profitability	- Improved patient care - Reduced carbon footprint - Improved nutrition - Improved education
Redefining productivity in the value chain	- Improved productivity - Secured supply - Improved quality - Improved profitability	- Reduced energy use - Reduced water use - Reduced raw materials - Improved job skills
Enabled cluster development	- Reduced costs - Secured supply - Improved workforce access - Improved profitability	- Improved education - Increased job creation - Improved health - Improved incomes

Note: Adapted from Porter et al., 2011, p. 3

2.2.1 Responses to Creating Shared Value and Criticism

Since Porter and Kramer (2006; 2011) first defined the concept of CSV, it has been widely discussed in academics as well as in corporate practices worldwide. As a result, several points of criticism have emerged: First, Crane et al. (2014) criticized that Porter and Kramer presented CSV as a novel contribution to literature although its core premises have a high resemblance to the existing concepts of CSR. For decades, the question of whether it pays to be green has been discussed extensively in the literature (Margolis & Walsh, 2003). Thus, scholars claim that by defining CSR as separate from profit maximization, Porter and Kramer (2011) ignore decades of work investigating the business case for CSR (e.g., Beschorner & Hajduk, 2017; Crane et al., 2014).

Second, the CSV concept fails to adequately face trade-offs between economic and social value creation (Crane et al., 2014). Crane et al. (2014) stated that "Porter and Kramer claim to 'move beyond' any such trade-offs, largely by, it would seem, ignoring them." (p. 11). They denounced a lack of clarity and guidance for situations where social and economic outcomes will not lead to stakeholder satisfaction for all involved parties. CSV provides no structure for companies

that face dilemmas rather than win-wins (Badaracco, 1997). Similarly, Voltan et al. (2017) found a growing number of critical opinions on the positioning of CSV as a concept to achieve win-win solutions, especially from non-Western settings. As declared by Crane et al. (2014), "The simplistic claims made by Porter and Kramer about the promise of the shared value concept are, we argue, distortions at worst and optimistic at best." (p. 11).

Aligned with this, Beschorner and Hajduk (2017) asserted that CSV does not appropriately address business compliance challenges. CSV is built on the assumption that companies comply with legal and moral standards. Nonetheless, research has shown that the absence of compliance with legal and moral standards is a key issue for MNCs (Matten & Crane, 2015). For instance, Matten and Crane (2015) identified that MNCs often operate in various geopolitical contexts with weak governmental and institutional power.

Lastly, scholars claim that CSV is strategically incoherent. For instance, Crane et al. (2014) emphasized, **"**Despite being co-written by one of the world's most eminent strategy gurus, the CSV concept lacks any real strategic coherence." (p. 17). In this context, it is criticized that CSV does not mention strategy models that need transformation. Instead, it tries to solve macro-level problems of capitalism by adapting micro firm-level behaviors (Crane et al., 2014).

2.2.2 Creating Shared Value vs. Corporate Social Responsibility

According to Kramer (2011), CSR is an overlapping but fundamentally different concept from CSV. The CSV paradigm emerged from the discussion around CSR's strategic use aiming to combine social and economic objectives. It was first proposed by Porter and Kramer (2006), who defined CSV as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (p. 66). Hence, it can be seen as a development from CSR and the traditional mentality that corporations can either do good or make a profit toward a business model of shared value creation (Hoek, 2020). In other terms, CSV is characterized as a shift from a zero-sum mindset stating that CSR is a cost center, toward win-win thinking of "doing well by doing good." This shift is strongly influenced by increased competition and an enlightened society which led to the need to combine two major objectives of corporations: profit maximization and social responsibility (Motilewa et al., 2016). Thus, Kramer (2011) stated that while CSR is about responsibility, CSV focuses on creating value.

For decades, CSR has been seen as rather disconnected from the profit-maximization process as its value is focused on doing good for society. Thus, many scholars have characterized CSR solely in terms of social advantages and have not focused on including the economic aspect in the definition (Wójcik, 2016). Hence, CSR is still broadly perceived as a cost center, not a profit center (Kramer, 2011). As such, the CSR agenda is rather limited by external reporting, personal preferences, and the company's CSR budget. To illustrate the concept of CSR, Porter and Kramer (2011) listed fair trade purchasing as an example.

In contrast to CSR, CSV has both a social and economic component and is integral to an MNC's profitability and competitive positioning (Porter & Kramer, 2011, p. 76). Shared value measurements enable investors to directly see the impact of CSR initiatives on the firm's financials as CSV makes social involvement tangible for investors (Porter et al., 2012). For instance, transforming procurement to increase quality and yield is an example of the CSV paradigm. Hence, CSV can be seen as an advancement of CSR rooted in a deeper comprehension of the link between companies and society (Porter & Kramer, 2006, p. 83). Therefore, Porter and Kramer (2011) suggest that CSV should supersede CSR in the decision-making process. The differences between the two concepts are summarized in Table 3.

Table 3: Comparison between Corporate Social Responsibility and Creating Shared Value

CSR	CSV
Value: doing good	Value: economic and societal benefits relative to cost
Citizenship, philanthropy, sustainability	Joint company and community value creation
Separate from profit maximization	Integral to profit maximization
Discretionary or in response to external pressure	Integral to competing
Impact limited by corporate footprint and CSR budget	Realigns the entire company budget
Agenda is determined by external reporting and personal preferences	Agenda is company-specific and internally generated
Example: Fairtrade purchasing	Example: Transforming procurement to increase quality and yield

Note: Adapted from Porter and Kramer, 2011, p. 76

2.2.3 Measurements of Creating Shared Value

As CSV is a concept that emerged rather recently, shared value assessment differs from existing social impact measurement approaches. None of the in Chapter 2.1.4 presented existing measures of CSP alone can assess the linkage between social and business results. Hence, new measurement approaches to evaluate shared value creation need to be evaluated as efforts to understand the interconnectedness of business and social value creation have just started. According to Porter et al. (2012), there are currently three different approaches to linking social and business results:

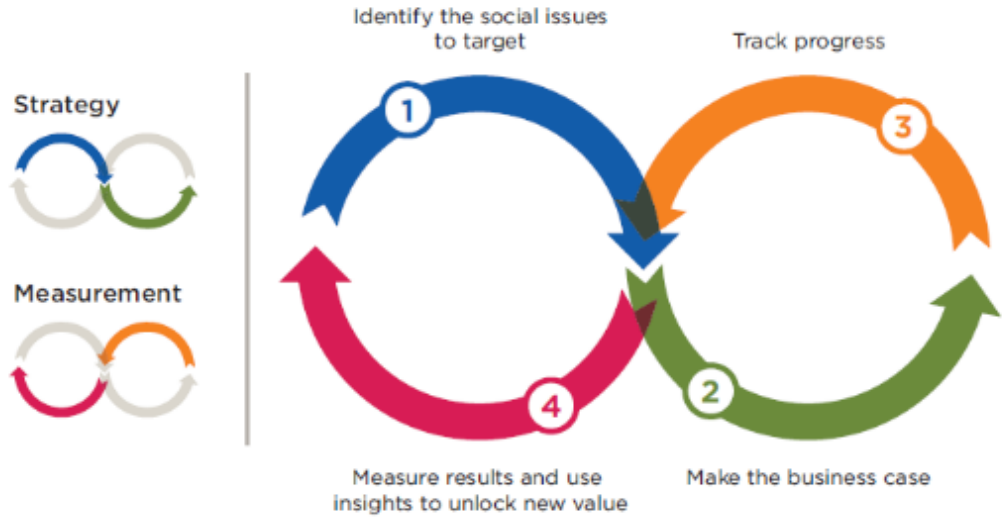
The first approach analyzes the correlation between ESG indicators and the company's financial performance. As described before, many MNCs measure their CSR progress against several ESG indicators and publish their results in sustainability reports. Moreover, several ESG indices and datasets have been developed to measure and rank a company's progress. The most well-known indices are MSCI ESG Indexes, Refinitiv / S-Network ESG Best Practices Indices, and Bloomberg's Environmental, Social & Governance (ESG Data) dataset (MSCI, 2021; Refinitiv, 2021; Bloomberg, 2021). Financial performance indicators are widely accessible in financial statements and on financial databases. Scholars have used a variety of datasets to access the correlation between ESG indicators and financial indicators, basing their results mainly on regression analyses as presented in Chapter 2.6. Integrated reporting as an accounting practice aims at combining sustainability and financial reports by adding ESG measures to financial statements. Thus, integrated reporting facilitates the measurement of the correlation between ESG indicators and the company's financial performance.

The second approach to linking business and social outcomes assigns a monetary value to a company's environmental and social impact (Porter et al., 2012). This movement is known in the literature and the corporate world as impact-weighted accounting. Impact-weighted accounts are line items on a firm's financial statement that reflect a company's positive and negative impacts on its environment, such as employees, customers, and the broader society (Harvard Business Review, 2021). This implies that an MNC's action which hurts the environment will lead to subtraction in the firm's financial statements. However, if a company engages in effective CSR initiatives, it will result in a positive number in its financials. According to Serafeim et al. (2019, p. 5), "Measuring and valuing the impacts that companies have on society and the environment, while not itself a sufficient condition, is a necessary one for reimagining capitalism." Nonetheless, although under development, no clearly defined impact metrics exist yet. Serafeim et al. (2019, p. 5) compare the development of impact-

weighted financial accounts with the development of the financial accounting infrastructure in the past that has been a necessity for large-scale capital markets. They state that soon, impact-weighted accounts will become inevitable for capital markets motivated by sustainability considerations.

Shared value measurement is the third approach to integrating social and business results. It aims at establishing a direct connection between social initiatives and financial returns. An iterative measurement process is crucial to effectively implementing shared value measurements at the company level. According to Porter et al. (2012, p. 4), this process consists of four steps, namely: (a) identify the social issues to target, (b) make the business case, (c) track progress, (d) measure results and use insights to unlock new value as can be seen in Figure 6. First, a company needs to identify and prioritize social issues that enable it to decrease costs or increase revenue. The result of the first step is a list of prioritized social issues that have the potential to create shared value (Porter et al., 2012). After listing potential social issues to target, the company should develop a business case. The research for developing a business case should be focused on how a social advancement will directly improve the firm's economic performance and lead to a go/ no-go decision (Porter et al., 2012). The third step should involve tracking the MNC's progress against established targets. Lastly, the company should verify that the anticipated link between social and business results was achieved and that a mutual gain was accomplished (Porter et al., 2012).

Figure 6: Shared Value Measurement Process



Note: Porter et al., 2012, p. 4

While there are promising movements for both the second and the third approaches to linking economic and social outcomes, little data is yet available. Consequently, the remaining thesis will focus on the first approach to measuring shared value that analyzes the correlation between ESG indicators and the company's financial performance. Integrated reporting facilitates this measure of the correlation between ESG and CFP.

2.3 Integrated Reporting

In recent years, a movement for Integrated Reporting (<IR>) emphasizing the need to link sustainability measures to financial statements has gained momentum. Due to global competition, regulations in response to financial crises, and technology innovations, accounting professionals have challenged the traditional reporting model (Dumay et al., 2016). They state that nowadays, the conventional accounting model does not sufficiently satisfy the information needs of stakeholders to evaluate a firm's global performance anymore (Flower, 2015). Consequently, MNCs worldwide have voluntarily published sustainability or non-financial reports focused on the firm's CSR engagement (Busco et al., 2017). However, unlike sustainability reports, integrated reports provide content that is anticipated to be linked to an MNC's long-term profitability (Serafeim, 2015). Therefore, the main purpose of an integrated report is " […] to explain to providers of financial capital how an organization creates value over time" (Integrated Reporting Council, 2013, p. 4). Thus, <IR> aims at providing a solution for the shortcomings of financial and non-financial reporting (IIRC, 2021). According to Deloitte United Kingdom (2021): "Integrated Reporting (<IR>) is being increasingly talked about as the future of corporate reporting."

From an academic perspective, <IR> has gained significant momentum in the past decade as a growing number of research papers have been released. Moreover, leading accounting conferences such as the European Accounting Association (EAA), the Interdisciplinary Perspectives on Accounting (IPA), and the Critical Perspectives on Accounting (CPA) conferences have issued various academic articles on the topic of <IR> (Flower, 2015). South Africa is the most advanced country regarding integrated reporting (Mukeredzi, 2019). In South Africa, integrated reporting started with the King Code of Governance for South (King III) in 2009. This document included the principle that "[…] the board should appreciate that strategy, risk, performance, and sustainability are inseparable" and advised that firms prepare an integrated report (King Code of Governance for South Africa, 2009, p. 22). Based on this

document, the Integrated Reporting Council of South Africa (IRCSA) developed a framework for integrated reporting in 2011. Nowadays, all listed companies on the Johannesburg Stock Exchange (JSE) must issue annual integrated reports.

In 2013, a Consultation Draft of the first Integrated Reporting Framework was published by the International Integrated Reporting Council (IIRC), using the IRCSA's framework as a starting point. Back then, the IIRC was a global association of the accounting profession, investors, companies, regulators, and nongovernmental organizations (NGOs). In 2021, the International Integrated Reporting Council (IIRC) merged with the Sustainability Accounting Standards Board (SASB) to build the nonprofit organization Value Reporting Foundation. The Value Reporting Foundation supports companies in developing a shared understanding of value creation through integrated reporting by publishing the International <IR> Framework used in more than 75 countries around the world (Value Reporting Foundation, 2021). The <IR> Framework promotes a more cohesive approach to corporate reporting that aims at communicating the full range of factors that impact the ability of firms to create value over time (Value Reporting Foundation, 2021). According to the Value Reporting Foundation (2021), an integrated report "[…] communicates how an organization's strategy, governance, performance, and prospects, in the context of its external environment, create preserve or erode value in the short, medium and long term." (p. 5). Besides, an integrated report enables companies to integrate the challenges and opportunities of sustainable development into their analysis by providing tools to track the interdependence between social and business results. Therefore, an integrated report "[…] aims to provide insight about the resources and relationships used and affected by an organization" (Value Reporting Foundation, 2021, p. 5).

<IR> is a process rooted in integrated thinking (Value Reporting Foundation, 2021). The Value Reporting Foundation (2021) describes integrated thinking as "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects." (p. 6). Thus, integrated thinking fosters holistic and connected communications focused on the MNC's corporate strategy. Embedding integrated thinking into all MNC activities will result in an improved and more natural information flow toward reporting (International Integrated Reporting Council, 2021, p. 3). As such, integrated thinking reinforces integrated reporting and vice-versa. By supporting integrated reporting in the entire decision-making process, integrated reporting analyzes value creation over the short, medium, and long term (Value Reporting Foundation, 2021). This is

one of the fundamental differences between <IR> and traditional accounting practices that focus primarily on the short-term.

The ultimate objective of integrated reporting and integrated thinking is to enhance the efficiency and productivity of capital allocation to promote sustainable development and financial stability (Value Reporting Foundation, 2021). This draws on improved accountability for the base of capital. The <IR> Framework lists six categories of capital, namely financial, natural, intellectual, manufactured, social and relationship, and human capital (Value Reporting Foundation, 2021). Integrated reporting especially focuses on advancing the understanding of the independencies of these forms of capital. Due to a shared understanding of dependencies within an organization, information silos can be reduced (Value Reporting Foundation, 2021).

The purpose of the <IR> Framework is to organize Content Elements and Guiding Principles that "[…] govern the overall content of an integrated report" (International Integrated Reporting Council, 2021, p. 10). Thus, the <IR> Framework characterizes several sources of impact that influence the MNC's value creation and erosion. These impact sources are included as so-called Content Elements in the <IR> Framework and allow for a comprehensive understanding of value creation. Content Elements involve the external environment, the firm's purpose, mission and vision, business model, governance, risks and opportunities, strategy and resource allocation plans, outlook, and performance (Value Reporting Foundation, 2021, p. 6). As a result, an integrated report includes all stakeholders, such as customers, employees, suppliers, policy-makers, business partners, legislators, local communities, and regulators (International Integrated Reporting Council, 2021, p. 5).

The <IR> Framework includes seven Guiding Principles (Value Reporting Foundation, 2021, p. 6) to structure an integrated report. The Guiding Principles explain what needs to be included in an integrated report and how this information needs to be presented (International Integrated Reporting Council, 2021, p. 7). These guiding principles are:

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness

• Consistency and comparability

To implement these Guiding Principles, each MNC has an individual path to an integrated report which depends on its experience, circumstances, and future plans (Value Reporting Foundation, 2021, p. 10). More precisely, the following factors can affect the implementation of integrated reporting: Legal status, industry and size, intended time frame to publish the integrated report, jurisdictional reporting requirements, a suite of existing communications and supporting processes or infrastructure, exposure to voluntary reporting initiatives and knowledge of their fit with other standards and frameworks (Value Reporting Foundation, 2021, p. 10). Thus, a custom-fit approach is needed.

Although the transition to <IR> is company-specific and involves a tailor-made approach, several steps are common to all firms (Value Reporting Foundation, 2021, p. 12). The Value Reporting Foundation (2021) has therefore created a six-step-roadmap to facilitate the implementation of <IR> as shown in Figure 7. The roadmap starts with assigning responsibility for integrated reporting. Furthermore, it involves examining existing reporting for gaps, identifying information needs, and assessing systems and controls. It ends with preparing report content which then needs to be reviewed and improved.

Figure 7: Six-Step-Roadmap of the Integrated Reporting Framework

Note: Value Reporting Foundation, 2021, p. 12

2.3.1 Responses to Integrated Reporting and Criticism

First, <IR> is criticized for focusing on value creation for investors rather than value creation for all stakeholders (Van Bommel, 2014; Flower, 2015; Alexander & Blum, 2016). Although 'value creation' is a central theme of the <IR> framework, investor orientation regulates the content of the integrated report. According to Flower (2015), "the IIRC's concept of value is 'value for investors' and not 'value for society'" (p. 1). Therefore, Flower (2015) stated that 'value' should be interpreted as 'value to investors.' This is aligned with Alexander and Blum (2016), who found that "the key customer of the IIRC is identical […]" to traditional reporting (p. 246), and Van Bommel (2014), who stated that <IR> has become a compromise that represents the specific interest of a few rather than the common good of many.

Furthermore, firm obligations are defined too broadly and inaccurately (e.g., Kluth, 2013; Cheng et al., 2014; Flower, 2015; Oll, 2018). For instance, Guiding Principle 4, materiality, is criticized by scholars for providing too little guidance on what needs to be disclosed in an integrated report (Haji & Anifowose, 2016; Chaidali & Jones, 2017). According to Cheng et al. (2014), prevalent definitions leave room for interpretation. An example is the following obligation: "An integrated report should be concise" (IIRC, 2013). Hence, companies face

difficulties recognizing relevant content (Stubbs & Higgins, 2014; Haji & Anifowose, 2016; Melloni, 2015). Particularly, firms struggle to balance the disclosure of positive and negative matters (Haji & Anifowose, 2016; Melloni, 2015).

Another source of criticism is the Guiding Principles. For instance, Guiding Principle 1 concentrates on strategic focus and future orientation. As with several terms in the <IR> framework, the term "future" is not well defined according to literature (e.g., Reuter & Messner, 2015). Besides, scholars argued how useful content on future outlook and strategy could be provided without publishing sensitive information (Reuter & Messner, 2015; Stacchezzini et al., 2016). Consequently, in practice, most integrated reports seem to include little information on future orientation (Melloni, 2015; Melloni et al., 2016).

Literature also disapproves of the uncertainty surrounding capital terminology (Oll, 2018). According to the <IR> Framework, reporting on capital is only mandatory if the MNC's value creation is affected. As a result, Flower (2015) argued that firms are not constrained to report harm inflicted on external entities, such as the environment, if there is no subsequent impact on the company. Additionally, obligations can be disregarded easily on three grounds: legal prohibition, unavailability of data, and competitive harm (Flower, 2015).

Besides, Flower (2015) argued that there is no assurance that companies faithfully apply the <IR> framework in preparing integrated reports. Maroun (2017) further stressed how difficult assurance becomes when multiple data types are used in a report. The variation in information sources further challenges data assurance (Burke & Clark, 2016).

Finally, scholars criticized that the <IR> framework is insufficient (Kluth, 2013; Flower, 2015; Alexander & Blum, 2016). Kluth (2013) questioned whether it will be attainable to foster the <IR> framework effectively in isolation or whether it will demand that the <IR> framework is aligned with new models of accounting. Flower (2015) stated that over time, the IIRC (called Value Reporting Foundation since 2021) had abandoned sustainability accounting in their <IR> Framework. He claimed that the IIRC's framework would have little impact on general corporate reporting practices due to its lack of force (Flower, 2015). Alexander and Blum (2016) even go a step further by declaring that a reporting framework that solves sustainability reporting issues still needs to be invented.

2.4 Corporate Financial Performance

Financial performance attempts to assess the fulfillment of a company's economic goals (Gentry & Shen, 2010) and has been a focus in management research on firm performance for decades (e.g., Barney, 2002; Combs et al., 2005; Hult et al., 2008). According to the Corporate Finance Institute (2021), financial performance is an evaluation of a company's overall profitability, focusing on equity, expenses, assets, revenue, and liabilities. CFP is measured through various business-related formulas and allows internal and external users to understand details regarding the firm's potential effectiveness (Corporate Finance Institute, 2021). Hence, CFP is an overview of the firm's financial status reports over time, intending to determine how a firm is generating revenue (Kusumawardani et al., 2021). Financial performance measurement comprises numerous metrics and formulas used as a benchmark for internal and external users (Kopecká, 2018). For internal users, CFP aims to understand their respective firms' well-being among benchmarks (Corporate Finance Institute, 2021). For external users, CFP enables an assessment of potential investment opportunities (Corporate Finance Institute, 2021).

2.4.1 Measurements of Corporate Financial Performance

Countless indicators to assess a company's CFP exist and have been analyzed widely in the literature. The most-broadly accepted classification of CFP was provided by Orlitzky et al. (2003). According to Orlitzky et al. (2003), CFP measures can be grouped into three categories, namely, (a) accounting-based, (b) market-based, and (c) perceptual CFP estimates.

Accounting-based measures involve return on asset (ROA), asset utilization, and growth measures (Lu et al., 2014). Theoretically, researchers identify accounting measures as reflections of past or short-term financial performance (e.g., Keats & Hitt, 1988). Accounting-based indicators are the most used indicators of CFP. According to a study conducted by Lu et al. (2014) investigating 105 papers on the CSP-CFP relationship, accounting-based measures are the most frequently used (56 out of 105). 39 out of 105 papers use market-based measures, and 10 out of 105 apply perceptual measures. Compared to the other two measures, accounting-based proxies are the most objective ones (Lu et al., 2014).

Market-based measures of CFP consist of measurements of price per share or share price appreciation (Lu et al., 2014). Since the mid-1980s, market-based performance measures have been introduced into management research (e.g., Lubatkin & Shrieves, 1986). This was aligned with growing shareholder activism during the late 1980s and the early 1990s, when many

MNCs implemented shareholder value maximization as their stated objective (Gentry & Wei, 2010). Hence, market-based CFP indicators relate to the notion that shareholders are the primary stakeholder group (Cochran & Wood, 1984). In contrast to accounting-based measures, market measures tend to reflect future or long-term financial performance (Keats & Hitt, 1988) and are regarded as partly objective (Lu et al., 2014). Moreover, market-based performance measures incorporate different types of information and are not limited to a single aspect of company performance, like accounting proxies (Lubatkin & Shrieves, 1986).

Lastly, perceptual measures of CFP are subjective estimates of firms' financial performance based on survey responses (Lu et al., 2014). This includes, for instance, the perception of the soundness of financial position, financial goal achievement relative to competitors, and wise use of corporate assets (Lu et al., 2014; Wartick, 1988). Amongst the three CFP measures, perceptual indicators are the least objective ones and are used rather seldom (Lu et al., 2014).

In general, CFP is criticized as a broad construct that makes it difficult to be measured (Lu et al., 2014). CFP data is primarily available in financial databases, including Bloomberg, Capital IQ, CEIC, Refinitiv, COMPUSTAT, and WRDS. Furthermore, CFP data, especially perceptual measures, is obtained from annual financial reports or survey respondents (Lu et al., 2014). The choice of CFP measures is often based on data availability.

2.5 Multinational Companies and the Fast-Moving Consumer Goods Industry

Although literature has proposed many theoretical and operational definitions of Multinational Companies (MNCs), none has become commonly accepted (Aggarwal et al., 2011). MNCs, also known as multinational enterprises and transnational corporations, have been traditionally characterized as companies that have developed over time into large corporations focusing on international operations (Aggarwal et al., 2011). However, technological innovations have removed many of the historical constraints of internationalization. As a result, scale is no longer a critical requirement for multinationalism (Aggarwal et al., 2011). Instead, Lecraw (1983) defined MNCs based on their Foreign Direct Investment (FDI) level, and Kwok and Reeb (2000) stated that firms must have a foreign assets ratio greater than one percent to be named MNCs. Moreover, Pitelis and Sugden (2000) indicated that multinational enterprises have ownership and control over the production of goods or services in at least one country other than their country of origin. Similarly, Letto-Gillies (2012) defined MNCs by the level of direct business activities abroad, stating that "The distinguish way of doing business abroad, the one

that characterizes the transnationals compared with other companies, is direct production and generally direct business activities abroad." (p. 8).

Fast-Moving Consumer Goods (FMCGs) are characterized as products that sell fast at relatively low cost and are intended for everyday private consumption (Statista, 2022). In general, consumer goods can be grouped into three categories: non-durable goods, durable goods, and services (Statista, 2022). FMCGs are non-durable products and form the largest segment of consumer goods. Costumers purchase these goods frequently as they are consumed quickly. Examples of FMCGs are fruit and vegetables, milk, soda, pasta, and cleaning products. As FMCGs have a high turnover rate, the market is large and competitive. The global FMCG market is estimated to reach 15,361.8 billion U.S. dollars by 2025, based on a projected Compound Annual Growth Rate (CAGR) of 5.4% from 2018 to 2025 (Allied Market Research, 2019). The leading FMCG companies in the market in 2020 based on net sales were Nestlé AG, Procter & Gamble, PepsiCo, Unilever, JBS, AB-InBev, Tyson Foods, British American Tobacco, L'Oréal, Coca-Cola Company, and Danone (Statista, 2020). For instance, Nestlé AG had net sales of 93,610 million U.S. dollars, followed by Procter & Gamble with 70,555 million U.S. dollars, and PepsiCo with 70.472 million U.S. dollars (Statista, 2020).

To investigate to which extent Corporate Social Performance (CSP) influences the financial performance of MNCs in the FMCG industry is of high importance as multinational enterprises increasingly engage in CSR practices (Levis, 2006). According to Levis (2006), this is the result of genuine corporate intent but also based on external pressure. A variety of motivations for MNCs to adopt CSR practices exist:

First, one of the main reasons MNCs invest in CSR activities is their greater visibility and exposure to demands from interest groups (Christmann, 2004; Yang & Rivers, 2009). This level of enhanced visibility can be a driving factor for MNCs to be more proactive in social and environmental issues as it strengthens their relationships with the local society in their countries of operation (Garriga & Mele, 2004). MNCs often operate in numerous countries with different institutional profiles (Kostova et al., 2008) and face various interest groups that grant them the power to act (Park & Ghauri, 2015). Hence, multinational enterprises are under more pressure than local firms to engage in CSR practices since they are in contact with many stakeholders (Jamali, 2010).

In this context, another reason for MNCs to engage in CSR practices is to improve their reputation (Aguilera-Caracuel et al., 2017). By addressing the demands of stakeholders in

different markets, MNCs can achieve the reputation of being responsible and legitimate entities committed to society (Christmann, 2004). CSR practices are especially crucial for MNCs' reputation and public image, as a loss of reputation may result in the greatest issues the firms can face (Levis, 2006).

Another key reason MNCs engage in CSR activities is increased customer awareness of CSR topics (Heyward, 2020). Studies have shown that customers are sensitive to a company's CSR actions (e.g., Mohr et al., 2001; Rahim et al., 2011; Grimmer & Bingham, 2013). This is especially relevant in the FMCG industry as companies directly interact with and compete for customers with low switching costs. Hence, a better CSR strategy than competitors can be a competitive advantage for MNCs and enable MNCs to increase customer retention.

Moreover, in contrast to local firms, MNCs can redistribute the costs of CSR investments among their subsidiaries (McWilliams & Siegel, 2001). As such, multinational enterprises can engage in CSR activities to strengthen their internal organizational framework (Aguilera-Caracuel et al., 2013). This can be achieved by extending their business model outside their corporation boundaries and the transfer of best practices, policies, and business models (Hitt et al., 1997).

Lastly, responding to societal concerns and demands allows MNCs to reduce specific risks significantly (Deckop et al., 2006). These risks include pressures from firms in the same sector, failure to comply with legislation, negative reactions from public opinion, issues with activists and NGOs, and boycotts (Deckop et al., 2006). Aligned with this, Levis (2006) stated that MNCs adopt CSR principles to reduce the need for other forms of regulation.

2.6 Review of Empirical Studies

First, studies that explore the impact of CSP on financial performance will be presented. As conflicting empirical findings on the relationship between CSP and CFP exist, meta-analytic reviews of empirical and event studies will be presented as well as individual regression analyses. These studies are directly linked to the research question: 'To which extent does ESG criteria influence the global performance of Multinational Companies (MNCs) in the fast-moving consumer goods (FMCG) industry?'. Table 4 provides an overview of the presented empirical studies on the CSP-CFP relationship specifying the study's focal units, independent variable(s), dependent variable(s), and findings. Subsequently, research papers that explicitly focus on the field of integrated reporting and its influence on CSP and CFP will be discussed.

2.6.1 Relationship Between Corporate Social Performance and Corporate Financial Performance

Abundant scholars have analyzed the link between CSP (independent variable) and a firm's financial performance (dependent variable). Nonetheless, after decades of research, the relationship between CSP and CFP remains controversial (e.g., Hull & Rothenberg, 2008; McWilliams & Siegel, 2000; Russo & Fouts, 1997). In general, the research community can be divided into two divisions: resource-based view (RBV) scholars who present evidence for a positive CSP–CFP relationship (e.g., Waddock & Graves, 1997; Berman et al., 1999; Orlitzky et al., 2003), and neoclassical economists who claim that CSR engagement can lead to higher cost (e.g., Friedman, 1970; Cornell & Shapiro, 1987; Brammer & Millington, 2008).

Hart and Ahuja (1996) were among the first to investigate the relationship between emissions reduction and firm performance. They examine a sample of S&P 500 firms using the Investor Responsibility Research Center's Corporate Environmental Profile and Compustat data. The independent variable, emissions reduction, was computed as a percentage change in the company's emissions efficiency index from 1988 to 1989. Return on sales (ROS), return on assets (ROA), and return on equity (ROE) were used to assess the dependent variables, operating and financial performance. This data was collected from the Compustat database. Hart and Ahuja's empirical findings disclosed that emissions reduction in time-period t fosters operating performance in time-period t +1. Moreover, emissions reduction in time-period t enhances financial performance in time-period t + 2. Hence, Hart and Ahuja's study proposes that it does pay to be green.

Russo and Fouts (1997) analyzed how environmental and economic performance interact. For their empirical research, they collected data on 243 firms between 1991 and 1992. The independent variable was measured using the independently developed environmental ratings by the Franklin Research and Development Corporation (FRDC). Russo and Fouts accumulated data on financial statistics from COMPUSTAT for each company. To examine the economic performance of the companies, they used ROA as an indicator. They chose capital intensity, research and development intensity, industry concentration, firm size, firm growth rate, advertising intensity, and market share as control variables. Their results supported that environmental performance fosters financial performance and that this relationship is strengthened by industry growth.

Waddock and Graves (1997) used data on 469 companies to study the impact of CSP on CFP for the period 1990 to 1991. They constructed an index of CSP based on eight categories and drew upon data obtained from the independent rating service Kinder, Lydenberg, and Domini (KLD). The KLD provides data on all companies in the Standard and Poor's (S&P) 500. Three accounting variables were used to assess a firm's financial performance: ROA, ROE, and return on sales (ROS). They controlled for size, risk, and industry. Waddock and Graves concluded that CSP is positively associated with prior financial performance. Moreover, CSP is also positively linked to future financial performance. They found considerable differences in the ratings among industries, with the lowest CSP-rated industry being refining, rubber, and plastic (SIC 2891-3199) at −.52. Hence, this industry ranked considerably less than less manufacturing-intensive industries such as banking and financial services at .13.

Berman et al. (1999) collected data for the years 1991 through 1996 to examine the effect of stakeholder management on corporate performance. Their initial sample involved the top 100 firms on the 1996 Fortune 500 list. Berman et al. found complete data on 81 out of the 100 firms. Financial data was collected from Compact Disclosure, Standard & Poor's stock reports, the companies' annual reports, the U.S. Bureau of the Census Annual Survey of Manufactures, and the U.S. Bureau of Economic Analysis Gross Product by Industry. Stakeholder relationship data was obtained from the KLD Socrates database, which uses five broad variables to measure a firm's stakeholder posture. More specifically, they used ROA as the dependent variable. As a control variable, they utilized the operating environment at the industry level. They concluded that three variables of the KLD database, namely, diversity, community, and the natural environment failed to show statistically significant impacts on firm financial performance. Contrary, the variables of employees and product safety/quality directly affected financial performance.

McWilliams and Siegel (2000) tested to what extent differences in CSP impacted a company's financial performance across 524 firms from 1991 to 1996. They analyzed data on CSP provided by the firm KLD and linked it to Compustat data. The independent variable was estimated based on the KLD ratings on CSP, and the dependent variable was defined as financial performance and R&D investments. McWilliams and Siegel's results suggest that CSP has a neutral impact on financial performance. They confirm that CSP and R&D are highly correlated, but when R&D is included in the regression model, CSP is shown to have a neutral effect on profitability.

Dowell et al. (2000) measured the impact of global environmental standards on stock market performance on a sample of U.S. MNCs listed on the Standard and Poor's 500 lists. Their sample period was 1994 to 1997. The dependent variable, stock market performance, was analyzed using Tobin's q as defined as firm market value per dollar of replacement costs of tangible assets. They drew upon data from the Investor Responsibility Research Center's (IRRC) Corporate Environmental Profile to assess environmental standards. Dowell et al. concluded that companies adopting stringent global environmental standards have much higher market values.

Brammer and Millington (2008) examined how CFP responded to changes in CSP in the case of a specific component of CSP: corporate charitable giving. Their research focuses on three time periods, namely, 1999, 1995 to 1999, and 1990 to 1999, and identifies exceptional social performance over these time horizons. Brammer and Millington defined companies with unusually high social performance as the top 10 percent of their ranking and firms with low social performance as the bottom 10 percent. The data was obtained from the reports of 537 sample firms quoted on the London Stock Exchange in 1999. CFP was characterized as risk-controlled market performance. The findings reveal that with statistical significance, firms with both unusually high and low CSP have higher financial performance than other firms. The magnitude of the effect is the strongest for unusually poor social performers. Hence, unusually poor social performers are doing the best.

Hull and Rothenberg (2008) investigated the effect of CSP on financial performance in 69 companies from 1998 to 2001. Moreover, they assessed the moderating effects of innovation and the level of differentiation in the industry on the CSP-CFP relationship. They constructed an index of CSP using the KLD ratings. To assess the degree of financial performance, they used various variables such as assets, sales, and risk and combined the KLD data with Compustat data. Their results suggest that differentiation in the industry and innovation have a moderating effect on the CSP-CFP relationship ($p < .01$). Hence, according to Hull and Rothenberg's results, CSP strongly influences performance in industries with low differentiation and low-innovation companies. Nonetheless, CSP shows little direct effect on the firm's financial performance.

Table 4: Summary of Empirical Studies on the Corporate Social Performance-Corporate Financial Performance Relationship

Study	Focal Units	Independent Variable	Dependent Variable(s)	Findings
Hart and Ahuja (1996)	S&P 500 firms, 1989 - 1999	Emission reduction as a percentage change	Return on sales (ROS), return on assets (ROA) and return on equity (ROE)	Positive correlation
Russo and Fouts (1997)	243 firms, 1991 and 1992	Ratings by the Franklin Research and Development Corporation (FRDC)	ROA	Positive correlation
Waddock and Graves (1997)	469 S&P 500 companies, 1990 - 1991	Independent rating of KLD	Return on assets, return on equity, and return on sales	Positive correlation
Berman et al. (1999)	Top 100 Fortune 500 companies, 1991 - 1996	Five broad variables from KLD: diversity, community, employees, and product safety/quality	ROA	No correlation between diversity, community, and the natural environment; positive correlation between employees and product safety/quality
McWilliams and Siegel (2000)	524 firms, 1991–1996	KLD data	Financial performance and R&D	Neutral correlation
Dowell et al. (2000)	U.S. MNEs listed on the S&P's 500 list 1994 - 1997	Environmental standards from (IRRC) Corporate Environmental Profile	Stock market performance (Tobin's q)	Positive correlation
Brammer and Millington (2008)	537 firms, 1999, 1995–1999, and 1990–1999	Corporate charitable giving	Risk-controlled market performance	Negative correlation
Hull and Rothenberg (2008)	69 companies, 1998 - 2001	Index from KLD	Assets, sales, and risk	Neutral to positive correlation

				depending on industry

Note: Own illustration

After discussing various academic papers presenting their empirical findings on the CSR-CFP relationship, it is also important to present some meta-analyses that summarize the results of several empirical papers. Frooman (1997) was one of the earliest to conduct a meta-analysis on the link between CSR and financial performance. He studied how shareholder wealth responds to socially responsible manners by analyzing 27 event studies. Data on the event studies was obtained from electronic databases, including ABI/INFORM, INFOTRAC, LEXIS, and PERI. Frooman concluded that the effect of ESG on shareholder wealth is negative and statistically significant ($p < .001$) with an average correlation (uncorrelated) of .312. Hence, he found that shareholder wealth decreases when companies act in a socially irresponsible manner.

Orlitzky and Benjamin (2001) analyzed the relationship between CSP and a firm's financial performance using an integrative empirical study. Data was provided by the following databases: ABI/Informs Global (ProQuest), PsycINFO, and EconLit. Orlitzky and Benjamin's study provided evidence that the relationship between CSP and risk is one of reciprocal causality. The findings reveal that prior CSP is negatively related to subsequent financial risk, and prior financial risk is negatively related to subsequent CSP. The average correlation is .149.

Orlitzky et al. (2003) studied how CFP is affected by corporate social/environmental performance by evaluating 52 studies. They researched the ABI/Inform Global and PsycINFO databases. Their meta-analytic results suggest that across studies, CSP is positively correlated with CFP. More specifically, Orlitzky et al. found that social responsibility and, to a lesser extent, environmental responsibility are likely to pay off. Furthermore, CSP seems to be stronger correlated with accounting-based indicators of CFP than with market-based measures.

Van Beurden and Gössling (2008) used CSR engagement as an independent variable and CFP as the dependent variable. Their meta-analysis used a data sample of the ABI/Inform Global and Springer Link databases. Twenty-three of the included studies found a significant positive relationship (68%), six studies found no significant relationship (26%), and two studies found a significant negative relationship (6%) between CSR and CFP. Hence, Van Beurden and Gössling identified clear empirical evidence for a positive correlation between corporate social and financial performance.

Endrikat et al. (2014) tested to what extent differences in corporate environmental performance (CEP) impacted CFP by meta-analytically integrating results across 149 studies. To collect their data, they used a systematic search in several databases, namely, Academic Search Complete, Business Source Complete, E-Journals, Elsevier Science Direct, Environment Complete, and GreenFILE. Endrikat et al.'s findings suggest a positive and partially bidirectional relationship between CEP and CFP with an average correlation of .082. Moreover, their results indicate that this relationship is stronger when CEP's strategic approach is proactive rather than reactive.

Allouche and Laroche (2015) examined how CFP responds to changes in Corporate Social Performance (CSP) based on a sample of 82 published studies. Data research was conducted on the Proquest/ABI Inform, EBSCO, and EconLit databases. They apply meta-regression analysis to facilitate the identification of moderating effects between the independent and dependent variables. Allouche and Laroche found that CSP positively impacts CFP with an average correlation of .143.

Del Mar Miras-Rodríguez et al. (2015) used a meta-analysis approach by linking national culture to the CSR-CFP relationship. They used the ISI Web of Knowledge and Scopus databases and those articles referenced in the literature review of Beurden and Gössling (2008) to identify 91 studies to review. Their results indicated that the CSR-CFP relationship is greatly influenced by national culture. The average correlation of their findings is .067 and they found that countries with a high gender egalitarianism and assertiveness show a strong negative link.

To conclude, findings on the CSP-CFP relationship are mixed. While scholars such as Waddock & Graves (1997), Berman et al. (1999), and Orlitzky et al. (2003) presented evidence for a positive impact of CSP on CFP, for example, Brammer and Millington (2008) found a negative relationship between CSP and financial performance. Moreover, McWilliams and Siegel (2000) and Hull and Rothenberg (2008) concluded that there is a neutral effect of CSP on CFP, and Berman et al. (1999) found no statistically significant relationship between these variables.

2.6.2 Influence of Integrated Reporting on Corporate Social Performance and Corporate Financial Performance

In contrast to countless academic papers on the CSP-CFP relationship, little research has been done yet in the field of integrated reporting (Huang & Watson, 2015; Barth et al., 2016). Few empirical studies have analyzed whether <IR> impacts the generation of stakeholder value (Mervelskemper & Streit, 2017). Certain papers aimed at linking integrated report quality (IRQ) to measurements of firm performance (e.g., Barth et al., 2016). Scholars argue that ESG

disclosure via integrated reporting positively influences value creation as firms are supposed to benefit from IR's "integrated thinking" (Simnett & Huggins, 2015; Barth et al., 2016). However, these studies have failed to deliver a definitive answer. Thus, in the following, various academic papers on the influence of integrated reporting on CSP and CFP will be presented. Table 5 provides a summary of these findings.

Barth et al. (2016) evaluated whether IRQ is linked to stock liquidity, firm value, expected future cash flow, and cost of capital. Their sample consisted of 67 of the top 100 firms on the Johannesburg Stock Exchange (JSE) based on market capitalization on 31 December 2011, 2012, and 2013. To assess IRQ, they based their measure on proprietary data from Ernst & Young (EY), which rated firm reports as part of its Excellence in Integrated Reporting awards. Barth et al. found that integrated reporting positively influences stock liquidity and firm value as measured by Tobin's Q.

Mervelskemper and Streit (2016) focused on the moderating effects of different types of ESG reporting on the market valuation of ESG performance. Their dataset includes 217 firms for the period 2010 to 2014. They obtained the data on a firm's performance from Thomson Reuters' ASSET4 ESG database. ASSET4's system includes more than 750 ESG aspects for each firm. Mervelskemper and Streit use this data and calculate a composite ESG performance score. To assess the independent variable, they use the firm's reporting status in the form of two dummy variables that measure whether a company issues an ESG report and whether a firm publishes an integrated report. Their results indicate that integrated reporting as ESG reporting practices is aligned with improved outcomes compared with stand-alone reports for CSP and CFP.

Suttipun (2017) investigated the extent of <IR> in annual reports and the effect of <IR> on CFP on a sample of firms listed on the Stock Exchange of Thailand (SET). He selected 150 listed companies by simple random sampling between 2012 and 2015. To estimate the independent variable, the following indicators were utilized in this study: content analysis, ethical rating, questionnaire survey, reputational measures, and uni-dimensional indicators. Tobin's Q was used to assess financial performance. Data was collected from the website of the SET. Moreover, the author controlled for the size of the company and the firm given CSR awards. Suttipun found that manufactured capital reporting and holding a CSR award positively impacted CFP. However, environmental capital reporting negatively influences CFP.

Lee and Hu (2018) studied the relationships among CSR, corporate reputation (CR), and CFP from 2011 to 2017 in 39 companies. They investigate how CFP moderates the relationship

between CR and CSR. Lee and Hu use the Reputation Institute as a database for secondary data on CSR and CR. This research selected ROA and ROE as measurements of CFP. Moreover, they control for firm size, sales growth rate, interest coverage ratio, age, and industry. Lee and Hu concluded that integrated approaches for sustainability have a mediating effect on the relationship between CR and CSP.

Albetairi et al. (2018) explored to what extent financial performance is impacted by <IR> and provided empirical evidence from five Bahraini listed insurance companies. Linear regression analyses were conducted to analyze data from 2012 to 2015. The dependent variable is measured as ROA. The independent variable was defined as compliance with the <IR> framework. Several indicators, such as disclosure of risk and opportunity, financial performance, and the adapted business model, analyzed firm compliance. They utilized secondary data such as companies' annual reports, ratios from the Bloomberg Terminal, publications of IIRC, and refereed articles. Albetairi et al. concluded that the content elements of <IR> that positively affect financial performance were the increased disclosure of the business model adopted and strategy and resource allocation. However, the disclosure of risk and opportunities and financial performance are content elements that hurt financial performance. Thus, they found that better-performing firms do not reveal their possible risks and opportunities.

Le Roux and Pretorius (2019) applied a single exploratory case study design to a leading South African stock exchange listed company in the property industry. Their study explored the nexus between integrated reporting and sustainability embeddedness. They gathered data from a diverse group of employees between 2011 and 2017 using multiple individual interviews, group interviews, and discussions. Le Roux and Pretorius's results reveal that <IR> fosters sustainability embeddedness and changes within the organization.

Matemane and Wentzel (2019) tested whether a relationship exists between IRQ and financial performance for a sample of South African listed banks. They drew upon secondary data, namely the integrated reports and annual financial statements of South African banks listed on the JSE for 2010 to 2014. Additionally, financial statements for the period 2005 to 2009 were used since integrated reporting was not yet mandatory. To measure the dependent variable, ROA, ROE, Tobin's q, earnings per share (EPS), and economic value added (EVA) are used as indicators. Matemane and Wentzel's findings indicate a positive link between IRQ and EPS. However, there is no significant relationship between IRQ and Tobin's q, IRQ and ROE, IRQ

and ROA, and IRQ and EVA. Additionally, Matemane and Wentzel did not find significant changes in the bank's financial performance before and after the implementation of <IR>.

Cosmulese et al. (2019) contributed to the relevant literature by providing an empirical analysis of stakeholders' expectations and integrated reporting quality. As an initial sample, they included 500 quoted companies (Standard & Poor's 500) on the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ). More specifically, data was obtained from all the published reports corresponding to the 2008–2017 reporting period. The financial, environmental, and social yearly reports were considered the main data source. After applying several criteria, 180 companies constructed the final sample. Cosmulese et al.'s findings imply that <IR> quality is in a relationship of direct causality with the stakeholders' expectations.

Table 5: Summary of Empirical Studies on the Influence of Integrated Reporting on Corporate Social Performance and Corporate Financial Performance

Study	Focal Units	Independent Variable	Dependent Variable(s)	Findings
Barth et al. (2016)	67 of the top 100 firms on the JSE 2011, 2012, 2013	<IR>	CFP measured as stock liquidity, Tobin's Q	<IR> positively correlated with stock liquidity and firm value as measured by Tobin's Q
Mervelskemper and Streit (2016)	217 firms, 2010 - 2014	<IR>	ESG performance	Positive correlation
Suttipun (2017)	150 SET-listed companies, 2012 - 2015	<IR>	CFP measured as Tobin's Q	Negative correlation
Albetairi et al. (2018)	5 Bahraini listed insurance companies, 2012 - 2015	<IR>	ROA	Mixed findings
Le Roux and Pretorius (2019)	diverse group of employees, 2011 - 2017	<IR>	Sustainability embeddedness	Positive correlation

Matemane and Wentzel (2019)	South African stock exchange-listed company, 2011-2017	IRQ	ROA, ROE, Tobin's q, earnings per share (EPS), and economic value added (EVA)	Positive correlation between IRQ and EPS. No significant relationship between IRQ and Tobin's q, IRQ and ROE, IRQ and ROA as well as IRQ and EVA

Note: Own illustration

A few scholars have investigated the interaction effect of <IR> on the relationship between CSP and CFP. For instance, Mans-Kemp and van der Lugt (2020) linked IRQ with sustainability and financial performance using a sample of the Top 100 companies listed on the JSE in South Africa from 2013 to 2018. Sustainability as measured by ESG scores and financial performance data as measured by accounting-based and market-based variables were obtained from Bloomberg. They gathered panel data on <IR> from the EY Excellence in Integrated Reporting Awards. Mans-Kemp and van der Lugt's results indicate that a high level of IRQ is significantly associated with high levels of ESG performance. Moreover, IRQ is linked to high leverage and high earnings per share.

Grassmann (2021) explored whether the disclosure of an integrated report might positively moderate the relationship between CSR and firm value. His study explored a global and listed sample of 8,992 firm-year observations between 2012 and 2017. Grassmann's research presented evidence that environmental expenditures follow a U-shaped relationship, and those social expenditures follow an inverted U-shaped relationship with firm value. <IR> positively moderates the environmental expenditures- firm value relationship for those companies with either a low or a high level of environmental expenditures. Contrary, the firms that are "stuck in the middle" regarding environmental expenditures show a negative moderating effect of <IR>. Additionally, Grassmann did not find a moderating effect of <IR> on the link between social expenditures and firm value.

Rabaya and Saleh (2021) analyzed the moderating effect of IR framework adoption on the relationship between ESG disclosure and a company's competitive advantage. Their sample includes 61 international private firms for the period 2009–2019. They apply cognitive cost theory to hypothesize that the <IR> format could enable stakeholders to understand the link

between sustainability practices and firm value creation. Hence, their study examined the role of ESG disclosure on competitive advantage, utilizing integrated reporting framework adoption as a moderating variable. Rabaya and Saleh select their data from the IIRC and Bloomberg databases. The dependent variable is defined as a competitive advantage; the independent variable is measured as ESG disclosure scores. As control variables, firm size, firm leverage, sales growth, and innovation were utilized. Rabaya and Saleh concluded that competitive advantage is positively affected by the degree of ESG disclosure. The findings also proposed that the relationship between ESG disclosure and competitive advantage is strengthened by adopting the IR framework.

3. Conceptual Framework

The following chapter will recap the research gap identified and the research question developed. The theoretical background will drive the development of Hypotheses 1 and 2 (H1 and H2).

3.1 Research Gap and Research Question

On balance, findings on the CSP-CFP relationship are mixed. While scholars such as Waddock & Graves (1997), Berman et al. (1999), and Orlitzky et al. (2003) presented evidence for a positive impact of CSP on CFP, for example, Brammer and Millington (2008) found a negative relationship between CSP and financial performance. Moreover, McWilliams and Siegel (2000) and Hull and Rothenberg (2008) concluded that there is a neutral effect of CSP on CFP, and Berman et al. (1999) found no statistically significant relationship between these variables. Moreover, the presented studies on the impact of integrated reporting on CSP and CFP reveal conflicting evidence.

Hence, the inconsistencies in empirical findings make it impossible to find a concrete answer to whether CSP positively impacts CFP. To the author's knowledge, no research so far has analyzed the relationship between CSP (as measured by the Refinitiv ESG score) and global financial performance (as measured by ROA, ROE, and Net Margin) for MNCs in the FMCG industry for the period 2005 to 2020. Thus, the choice of the population and the period enable this research to provide new empirical evidence in the field of corporate social performance. Likewise, as far as the author knows, no study has investigated yet to which extent the adoption of <IR> moderates the CSP-CFP relationship for this data sample. Unlike previous studies, this analysis differentiates between companies using integrated reporting and those publishing financial and non-financial reports separately to measure a possible moderator effect. Thus, this thesis aims to close the research gap on <IR>'s influence on the CSP-CFP relationship.

Faced with a growing urgency to mitigate social and environmental issues, it is of interest to analyze whether ESG initiatives positively, negatively, or neutrally influence MNCs' CFP. Additionally, it is crucial to evaluate whether this potential relationship is stronger for MNCs that link business and social results in integrated reports than firms that publish both a financial and a non-financial report. Hence, this thesis has the objective to answer the following research question: *'To which extent does Corporate Social Performance (CSP) influence the financial*

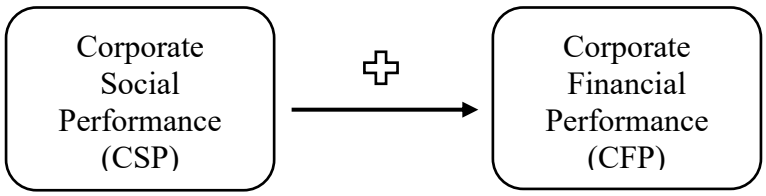
performance of Multinational Companies in the fast-moving consumer goods (FMCG) industry?'.

3.2 Development Hypothesis 1

According to stakeholder theory as described in Chapter 2.1.3, businesses are unavoidably interconnected with their stakeholders (Freeman, 1984). Hence, stakeholder theory stresses that the essence of companies is found in their relationships with stakeholders and in their ability to create value for all stakeholders (Freeman, 1984). Consequently, profit maximization is not the only objective of a firm's strategy. To achieve mid-long-term success, companies must attain an equilibrium among stakeholders' expectations (Clarkson, 1995) and thus, develop a managerial approach to ensure durable and sustainable ties with various stakeholder groups (Freeman, 1999). One way to fulfill stakeholder expectations is to engage in CSR activities.

As stakeholder theory emphasizes the importance of a company's responsibility toward society (Freeman & Dmytriyev, 2017), companies must focus on including societal interests in business decisions (Freeman, 1984). Negative environmental and social actions, such as emitting large quantities of CO2 or mistreating employees, negatively influence stakeholders' company opinions. On the contrary, creating shared value for stakeholders by engaging in socially responsible initiatives will fulfill expectations and ensure the firm's long-term success. Thus, MNCs that improve their corporate social performance (CSP) will benefit from an enhanced corporate financial performance (CFP) due to stakeholder satisfaction. Given the previous argumentation, the following first hypothesis will be proposed, as illustrated in Figure 8.

Figure 8: Hypothesis 1



Note: Own illustrations

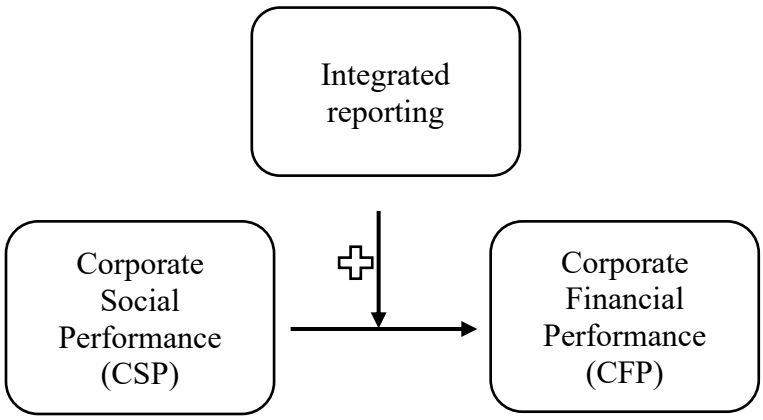
Hypothesis 1: Corporate Social Performance (CSP) has a positive influence on a Multinational Company's Corporate Financial Performance (CFP).

3.3 Development Hypothesis 2

Creating Shared Value (CSV) aims at generating economic value while at the same time addressing societal needs by linking corporate social performance and corporate financial performance (see Chapter 2.2). Hence, CSV is not sustainability or philanthropy but a new business concept to improve a company's financial performance. CSV is based on the understanding that markets are not only defined by economic needs but also by societal demands (Porter & Kramer, 2011). As claimed by Wachira (2019): "Societal needs, not just conventional economic needs, define markets, and social harms can create internal costs for firms." (p. 1). Hence, addressing societal harms can lead to innovation and improved profitability (Porter & Kramer, 2011). According to the concept of CSV, three levels of shared value creation exist: (a) redefining productivity in the value chain, (b) reconceiving products and markets, and (c) enabling cluster development (Porter & Kramer, 2011).

To explore the link between a firm's social engagement and its economic performance, MNCs must measure and link their CSP and CFP. The most feasible approach for measuring shared value is to analyze the correlation between ESG indicators and the company's financial performance. In this context, integrated reporting as an accounting practice focuses on combining sustainability and financial reports by adding ESG measures to financial statements. Integrated reporting has the objective to "explain to providers of financial capital how an organization creates value over time." (Integrated Reporting Council, 2013, p. 4) by providing tools to track the interdependence between social and business results. Hence, it facilitates the measure of a correlation between ESG indicators and the company's financial performance. Consequently, the effect of CSP on CFP might be significantly stronger for MNCs that use integrated reporting. Given the previous argumentation, the following second hypothesis will be proposed in Figure 9.

Figure 9: Hypothesis 2



Note: Own illustrations

Hypothesis 2: Integrated reporting will positively moderate the CSP-CFP relationship insofar as Multinational Companies (MNCs) that use integrated reporting will be more likely to improve their financial performance through shared value creation than MNCs that do not use integrated reporting.

4. Methodology

This chapter will elaborate on the selected research design, the population, and the measurement protocol. Moreover, the statistical methods, including the regression models, will be stated.

4.1 Research Design

To measure the effect size of CSP on an MNC's global financial performance, a panel study was chosen as a research design. Despite the lower internal validity of panel research for causal claims in comparison to experiments, an experimental study would have gone beyond the limited scope of this thesis. Hence, a panel study was chosen over an experiment due to the causes of feasibility. Furthermore, a panel study's large time window makes it a more appropriate alternative than a cross-sectional study. Considering the restricted available resources, a panel research design is the most suitable option for this thesis.

4.2 Population

The focal unit of this research consists of 24 MNCs in the FMCG industry, namely, Anheuser-Busch InBev SA, Asahi Group Holdings Ltd., Coca Cola HBC AG, Danone SA, Diageo Plc., Grieg Seafood ASA, Heineken NV, Henkel AG & Co. KGaA, Hormel Foods Corp, JBS SA, Koninklijke Ahold Delhaize NV (short Ahold Delhaize), Lawson Inc, L'Oréal SA, Marks & Spencer Plc, Mondelez International Inc., Natura & Co SA, Nestlé SA, Oceana Group Ltd., PepsiCo Inc., Pernod Ricard SA, Procter & Gamble Co, The Coca-Cola Company, Tyson Foods Inc., and Unilever Plc. The selected time frame of this panel study is 2005 to 2020. The focal units were chosen randomly based on ESG and economic data availability. The FMCG sector was chosen as an industry for the following reasons: First, as presented in Chapter 2.5, studies have shown that customers are sensitive to a company's CSR actions (e.g., Mohr et al., 2001; Rahim et al., 2011; Grimmer & Bingham, 2013). As such, the FMCG industry is directly impacted by increased customer awareness around CSR topics (Heyward, 2020) due to low switching costs and a high level of competition in the market. Hence, MNCs in the FMCG industry are likely to engage in CSR activities to achieve a competitive advantage and increase customer retention. Second, it is interesting to analyze the interaction effect of integrated reporting on the CSP-CFP relationship. Consequently, data on the MNC's integrated reporting status was a prerequisite for this study. As many players in the FMCGs industry are large

MNCs, which increases the likelihood of data availability on the usage of integrated reporting, the choice of the industry was also made due to data availability.

In conclusion, the population of interest consists of 350 observations of 24 companies in the FMCG industry from 2005 to 2020.

4.3 Measurement Protocol

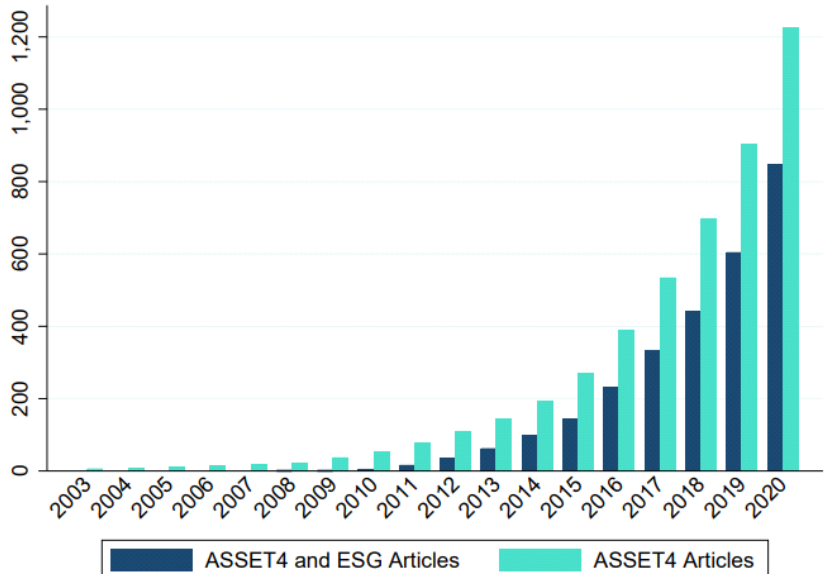
Literature has acknowledged a large range of CSP and CFP indicators, as described in Chapters 2.1.4 and 2.4.1, respectively. In the following sections, the choice of measurements for this research will be justified. An overview of the variables used can be found in Table 6.

4.3.1 Independent Variable: Corporate Social Performance

The most broadly considered indicators to assess CSP are sustainability indicators, impact assessments, compliance evaluations, and reputation measurements (Porter et al., 2012). For this study, the Refinitiv ESG score, a sustainability indicator, was chosen to measure CSP.

The Refinitiv ESG data is based on over 630 ESG measures for each company that undergo a standardization process to ensure that the data is comparable across companies (Reuters, 2022). For this purpose, Refinitiv has over 360 content research analysts being one of the largest ESG content collection operations globally (Reuters, 2022). The ESG indexes were initially created by ASSET4, a firm founded in 2003 and acquired in 2009 by Thomson Reuters (Berg et al., 2020). In 2017, Thomson Reuters added thirteen new data items to the database, one of them being a new Total ESG Score (Berg et al., 2020). Nowadays, Refinitiv is a subsidiary of the London Stock Exchange Group after a sale of its previous owners, Thomson Reuters and Blackstone Group LG. The Refinitiv database is continuously updated, and data is refreshed on products every week (Reuters, 2022). It contains data for approximately 9,000 companies worldwide. ESG scores by Refinitiv are broadly used in the investment management sector and academic research (Berg et al., 2020). Figure 10 displays that, by October 2020, more than 1,200 academic articles have referred to the Refinitiv ESG data (Berg et al., 2020). In the figure, Berg et al. (2020) utilized the cumulative count for the search term "ASSET4," as ASSET4 initially developed the Total ESG Score.

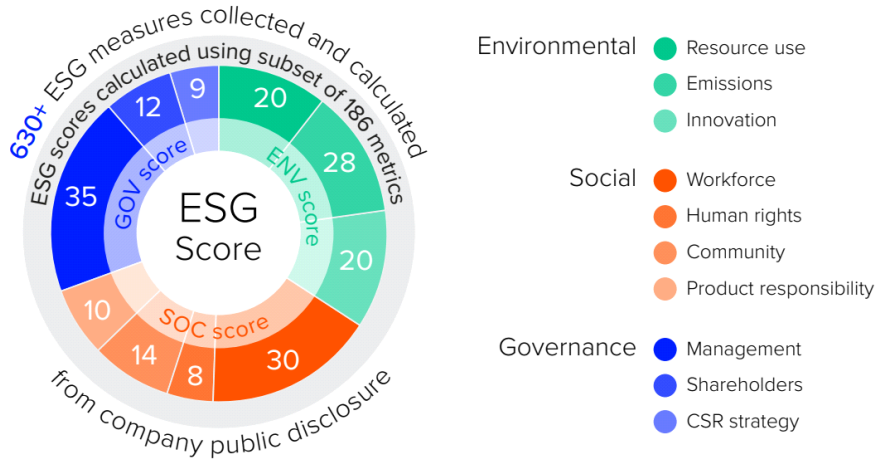
Figure 10: Importance of Refinitiv ESG Data (Former Known as ASSET4) in the Literature



Note: Berg et al., 2020, p. 37

Refinitiv groups company-level ESG data into three subcategories, namely environmental, social, and governance, and ten categories, as presented in Figure 11 (Reuters, 2022). Refinitiv focuses on resource use, emissions, and innovation regarding environmental data. For social, the categories are workforce, human rights, community, and product responsibility. Lastly, governance is divided into management, shareholders, and CSR strategy.

Figure 11: ESG Score Components



Note: Refinitiv, 2022, p. 6

This categorization forms the basis for their three-pillar scores (E-Score, S-Score, and G-Score) and the final Total ESG Score (Reuters, 2022). The ESG scores are a relative sum of the category weights normalized to percentages ranging between 0 and 100, as shown in Figure 12 (Reuters, 2022). A score above 75 indicates an excellent relative ESG performance, and hence, MNCs that reach this score are classified as ESG leaders. Companies that score below 25 build the bottom of the ESG comparison and are categorized as ESG laggards.

Figure 12: Score Range of Total ESG Index

Score range	Grade	Description
0.0 <= score <= 0.083333	D -	'D' score indicates poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly.
0.083333 < score <= 0.166666	D	
0.166666 < score <= 0.250000	D +	
0.250000 < score <= 0.333333	C -	'C' score indicates satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
0.333333 < score <= 0.416666	C	
0.416666 < score <= 0.500000	C +	
0.500000 < score <= 0.583333	B -	'B' score indicates good relative ESG performance and above-average degree of transparency in reporting material ESG data publicly.
0.583333 < score <= 0.666666	B	
0.666666 < score <= 0.750000	B +	
0.750000 < score <= 0.833333	A -	'A' score indicates excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly.
0.833333 < score <= 0.916666	A	
0.916666 < score <= 1	A +	

Note: Refinitiv, 2022, p. 7

The ESG index from Refinitiv is one of the most objective measures available as it focuses on actual ESG instruments rather than the subjective perception of managers on ESG engagement. Moreover, it is based on a large database, including data on over 9,000 companies and 620-company level ESG measures. However, like any other measure, the Total ESG Score from Refinitiv has several shortcomings. First, Berg et al. (2020) and Gibson et al. (2019) found large disagreement across major ESG rating providers. Moreover, Amel-Zadeh and Serafeim's (2018) survey findings revealed that 82% of investment professionals use ESG information in the investment process, but 26.4% also denote a lack of ESG rating reliability. Hence, there is a lack of confidence of investors and business owners in ESG rating reliability which has been further enhanced recently by famous personalities such as Elon Musk (2022). In addition, it comes as a surprise to many that ESG ratings, above all, focus on ESG related risk rather than measuring to which extent a company makes a positive impact (Makower, 2022). However,

although the ratings assess risk, it does not indicate that ESG ratings are not an indicator for CSP. Lastly, ESG scores have been developed rather recently, and thus, data does not go back far in history and are often backfilled (SEC's Asset Management Advisory Committee, 2020).

Nonetheless, the Total ESG Score from Refinitiv is the most appropriate choice for measuring the independent variable in this study. Data on the Total ESG Score was obtained from the Refinitiv database.

4.3.2 Dependent Variable: Corporate Financial Performance

To access the dependent variable CFP, scholars have utilized a variety of measurements that can be grouped into three categories: accounting-based, market-based, and perceptual indicators. Accounting-based measures were used to estimate CFP in this study as these proxies are the most objective ones and are utilized the most frequently in empirical research (Lu et al., 2014). Additionally, data availability on CFP determined this choice.

As the goal of this thesis is to investigate how shared value can be created through integrated reporting, it is relevant to recall how shared value relates to CFP. As described by Porter and Kramer (2011), there are three levels on which shared value can be pursued: (a) redefining productivity in the value chain, (b) reconceiving products and markets aiming at increasing profitability, and (c) enabling cluster development to strive productivity further. The CFP outcomes of these three approaches are measured by increased productivity for (a) and (c) and enhanced profitability for level (b). Hence, both profitability and productivity measures are needed to assess CFP effectively.

In total, eight potential proxies for CFP were identified. ROA, ROE, Gross Profit Margin, EBITDA Margin, and Net Margin were classified as measurements for profitability. Net Income After Tax Per Employee, Total Assets per Employee, and Sales per Employee were categorized as proxies for productivity.

Regarding profitability measures, ROA is computed by dividing a company's yearly pre-tax earnings by the company's total assets (Refinitiv, 2022). ROE estimates the ability of an MNC to generate earnings from its common stockholders' investments. A high margin for ROA and ROE is a positive sign for a firm's profitability (Refinitiv, 2022). A large majority of scholars have used ROA and ROE as proxies to measure financial performance (e.g., Buallay, 2019; Esteban-Sanchez et al., 2017). Another proxy for profitability is Gross Profit Margin which indicates how much a firm earns relative to its sales (Tangen, 2003). More precisely, the Gross

Profit Margin estimates the remaining percentage of the sale after the firm has paid for its goods (Nariswari & Nugraha, 2020). Hence, a high Gross Profit Margin is beneficial (Marr, 2012). EBITDA Margin represents the ratio of Earnings before Interest, Taxes, Depreciation & Amortization (EBITDA) divided by the value of revenue from business activities (Refinitiv, 2022). Net Margin computes how much net income or profit is generated as a percentage of revenue (Refinitiv, 2022). For both EBITDA Margin and Net Margin, one can say that the higher the value, the better.

Productivity proxies are a powerful management tool as they directly reflect management effectiveness (Grossman, 1984). Net Income Per Employee (NIPE) is used to identify the efficiency and productivity of businesses and can be utilized to benchmark a company's performance against others (Grossman, 1984). It indicates how well the MNC motivates its employees to generate sales while controlling costs (Wei et al., 2002). It is calculated by dividing a firm's net income by the number of employees. The higher the NIPE, the better. Total Assets per Employee is used to assess productivity by dividing total firm assets by the number of employees (Refinitiv, 2022). Similarly, Sales per Employee is a measure of productivity computed as a company's annual sales divided by its total employees (Refinitiv, 2022). In both cases, the ratio should be a positive number.

Although subject to numerous advantages, profitability and productivity indicators include certain drawbacks. Financial measures are clearly focused on cost elements and aim at quantifying performance solely in financial terms (Ghalayini et al., 1997). However, many company improvements are difficult to directly quantify in monetary value (Ghalayini et al., 1997). Furthermore, financial reports are normally produced quarterly, and the results are based on decisions made months prior to publication. Another disadvantage of financial indicators is that they have an inflexible format used across all departments disregarding the unique characteristics and priorities of certain departments (Maskell, 1991).

Nonetheless, profitability and productivity proxies are the most effective indicators for the dependent variable, CFP. Data on all the above-identified measures were gathered from the Refinitiv database. In Chapter 4.4.1, the eight potential proxies for CFP will be tested for the assumptions of linear regression to identify the most suitable measures.

4.3.3 Control Variables and Moderator

Control variables are used to precisely identify the relationship between the independent and dependent variables without biases. To answer H2 suggesting a moderating effect of integrated reporting on the CSP-CFP relationship, the firm's status on integrated reporting was used as a moderator.

Control Variables: Total Assets, Firm Age, and Board of Directors Size

Based on previous studies examining the relationship between CSP and CFP, Total Assets, Firm Age, and Board of Directors Size were chosen as control variables. First, previous research found evidence that firm performance may vary due to company size (e.g., Atan et al., 2018; Velte, 2017). According to Lu et al. (2014), firm size was the most used control variable to estimate the CSP-CFP relationship across 105 studies examined. To control for size is relevant as there is proof that smaller firms may not display as much socially responsible behavior as larger firms (Waddock & Graves, 1997). Total Assets measures firm size. Total Assets are estimated by adding Total Current Assets and Total Non-Current Assets (Refinitiv, 2022). Moreover, scholars have used Firm Age as a control variable as older companies might have more resources to invest in CSR activities (e.g., Thuy et al., 2022). Age is measured by the total number of years since the foundation of the MNC. Similar to Total Assets, Lu et al. (2014) listed Firm Age as one of the most used control variables in their analysis. Lastly, the Board of Directors' Size was chosen as the control variable as the board of directors aims to provide a structure for setting company goals. This involves serving the interests of society and all stakeholders (García-Sánchez, 2010). Hence, the regression analyses will control for the size of the board of directors using data obtained from the Refinitiv database.

Moderator Variable: Integrated Reporting

Following the research objective of H2, the usage of integrated reporting is included as a moderator variable. The observations were divided into two categories, depending on whether integrated reporting was applied within the MNC or not. Data on the MNC's status on integrated reporting was obtained from the Value Reporting Foundation's (2022) Integrated Reporting Examples Database and the companies' websites. The usage of integrated reporting is differentiated by using a dummy variable (0 or 1). Each company using integrated reporting in the data set is attributed a 1, and each company publishing a sustainability and a non-sustainability report separately a 0. In total, 82 observations with companies using integrated

reporting and 196 observations with MNCs not using integrated reporting build the final data set.

Table 6: Definition of Variables

Variable	Definition
Total ESG Score	Total ESG Score provided by Refinitiv
ROE	Net income/shareholders' equity
ROA	Net income/average of total assets
Gross Profit Margin	Gross profit/total revenue
EBITDA Margin	EBITDA/total revenue
Net Margin	Net profits/total revenue
Net Income After Tax Per Employee	Net income after tax/employees
Total Assets per Employee	Total assets/employees
Sales per Employee	Total sales/employees
Total Assets	Total number of current and non-current firm assets
Firm Age	Total firm age since foundation
Board of Directors Size	Size of the board of directors of the MNC
Integrated Reporting	Usage of Integrated Reporting (0= no usage of < IR>; 1= usage of < IR>)

Note: Own illustration

4.4 Statistical Methods

First, the descriptive statistics were calculated to analyze the chosen data set. To identify existing correlations between the variables, Pearson's correlation coefficients were determined. Multiple Ordinary Least Squares (OLS) regression analyses were performed to test both hypotheses. According to Fahrmeir et al. (2013), "regression is the most popular and commonly used statistical methodology for analyzing empirical problems" (p. V). In general, regression models are used to measure the relationship of each independent variable (predictor) to the

dependent variable (criterion) (Aiken et al., 1991, p. 9). This research aims to analyze to which extent CSP (predictor variable) influences CFP (outcome variable) to answer the research question: *'To which extent does Corporate Social Performance (CSP) influence the financial performance of Multinational Companies in the fast-moving consumer goods (FMCG) industry?'*. Hence, regression analysis is the most suitable statistical method to measure the potential causal relationship between CSP and CFP.

However, regression analyses come with certain difficulties and drawbacks. For instance, various assumptions must be fulfilled before conducting the analysis, which could otherwise distort the empirical findings (Field, 2013). In contrast to an experiment, it is impossible to control for every external factor in a regression analysis. Thus, the regression analysis's significance varies depending on the chosen model and dataset (Aiken et al., 1991). Another drawback of this statistical method is that a regression analysis assumes that the relationship between the variables remains unchanged over time. This may not always hold and might cause misleading results.

4.4.1 Assumption Testing

Prior to specifying the model and conducting the regression analyses, the data set was tested for the assumptions of linear regression. The assumptions of linear regression include (a) linearity, (b) no multicollinearity, (c) normality, and (d) homoscedasticity. Moreover, it is of importance to identify influential values and outliers.

First, to analyze the assumption of normality, histograms were used. Although the histograms showed small variations from a perfectly normal distributed data set, the following variables showed a clear bell-shaped curve: ESG score, ROE, ROA, Net Margin, EBITDA Margin, and Gross Profit Margin. Solely the variables Net Income After Taxes per Employee, and Total Assets per Employee showed an un-normal distribution and will therefore not be included in the regression analyses. The remaining variables were inserted into a scatter plot to verify the assumption of linearity. This analysis indicated that the relationships between the independent variable, total ESG score, and the dependent variables, ROE, ROA, and Net Margin, are linear. However, the relationships between ESG score and the dependent variables Sales per Employee, EBITDA Margin, and Gross Profit Margin did not prove linear. They will hence not be included in the following analysis. Then, the independent variable, as well as the control variables, were tested for multicollinearity with the Variance Inflation Factor (VIF). A VIF value of > 5 indicates that the data set may include multicollinearity. The findings revealed that

the VIFs for all variables were below 2. Thus, no multicollinearity issues were discovered. To test for homoscedasticity, a PP-Plot of regression standardized residuals was created. It showed that no strong issues of heteroskedasticity were found. The same holds when interpreting scatter plots of regression standardized residuals and regression standardized predicted values. Moreover, to check for influential values, Cook's distance was applied. For all remaining variables, Cook's distance did not exceed the threshold of 1. Hence, the dataset does not contain influential data points. To conclude, the dependent variables ROE, ROA, and Net Margin proved to fulfill all assumptions of linear regression. All three control variables are profitability measures.

4.4.2 Model Specification

As the dependent variables ROE, ROA, and Net Margin fulfilled the assumptions of multiple linear regression, various regression models were developed. The method used for these analyses was 'forced entry.' In total, nine multiple linear regression models were created. While Models I-III use ROE as the dependent variable, Models IV-VI utilizes ROA and Models VII-IX Net Margin.

Models I-III analyze the effect of ESG on ROE. Model I does not include a time lag and uses values of all variables for the same year. In contrast, Model II uses values of the independent variable and control variables of a certain year and values of the dependent variable of the upcoming year. It might be that the relationship between ESG investments and ROE needs time to develop before the effect becomes noticeable; hence a one-year time lag was calculated. Models I-II aim to test H1, which states that Corporate Social Performance (CSP) fosters an MNC's Corporate Financial Performance (CFP). Additionally, Model III was developed to analyze H2, suggesting that integrated reporting will positively moderate the ESG-ROE relationship. Therefore, Model III tests for an interaction effect between integrated reporting on the relationship between ESG scores and ROE.

Models IV-VI use ROA as the dependent variable. While Model IV does not include a time lag and measures the effect of ESG on ROA within the same year, Model V includes a one-year time lag. Model VI measures the moderating effect of integrated reporting on the ESG-ROA relationship.

Models VII-IX utilize Net Margin as the outcome variable. Model VII does not include a time lag, Model VIII uses a one-year time lag, and Model IX includes integrated reporting as a moderator. The nine regression models are expressed below:

Models I-III: ROE

$$ROE_t = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \varepsilon$$

$$ROE_{t+1} = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \varepsilon$$

$$ROE_t = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5\ Integrated\ Reporting + \beta_6 Integrated\ Reporting{:}\ ESG_t + \varepsilon$$

Models IV-VI: ROA

$$ROA_t = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \varepsilon$$

$$ROA_{t+1} = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \varepsilon$$

$$ROA_t = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \beta_6 Integrated\ Reporting{:}\ ESG_t + \varepsilon$$

Models VII-IX: Net Margin

$$Net\ Margin_t = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \varepsilon$$

$$Net\ Margin_{t+1} = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \varepsilon$$

$$Net\ Margin_t = \beta_0 + \beta_1 ESG_t + \beta_2 Total\ Assets_t + \beta_3 Firm\ Age_t + \beta_4 Board\ of\ Directors_t + \beta_5 Integrated\ Reporting + \beta_6 Integrated\ Reporting{:}\ ESG_t + \varepsilon$$

5. Empirical Results

In this chapter, the findings of the regression analyses will be discussed. Based on these results, statements regarding H1 and H2 will be made to confirm or reject the developed hypotheses.

5.1 Descriptive Statistics and Correlation

Table 7 presents the descriptive statistics of the regression models. More specifically, the table displays the unit of measurement, the total number of observations, means, standard deviations, and minimum and maximum values.

Table 7: Descriptive Statistics

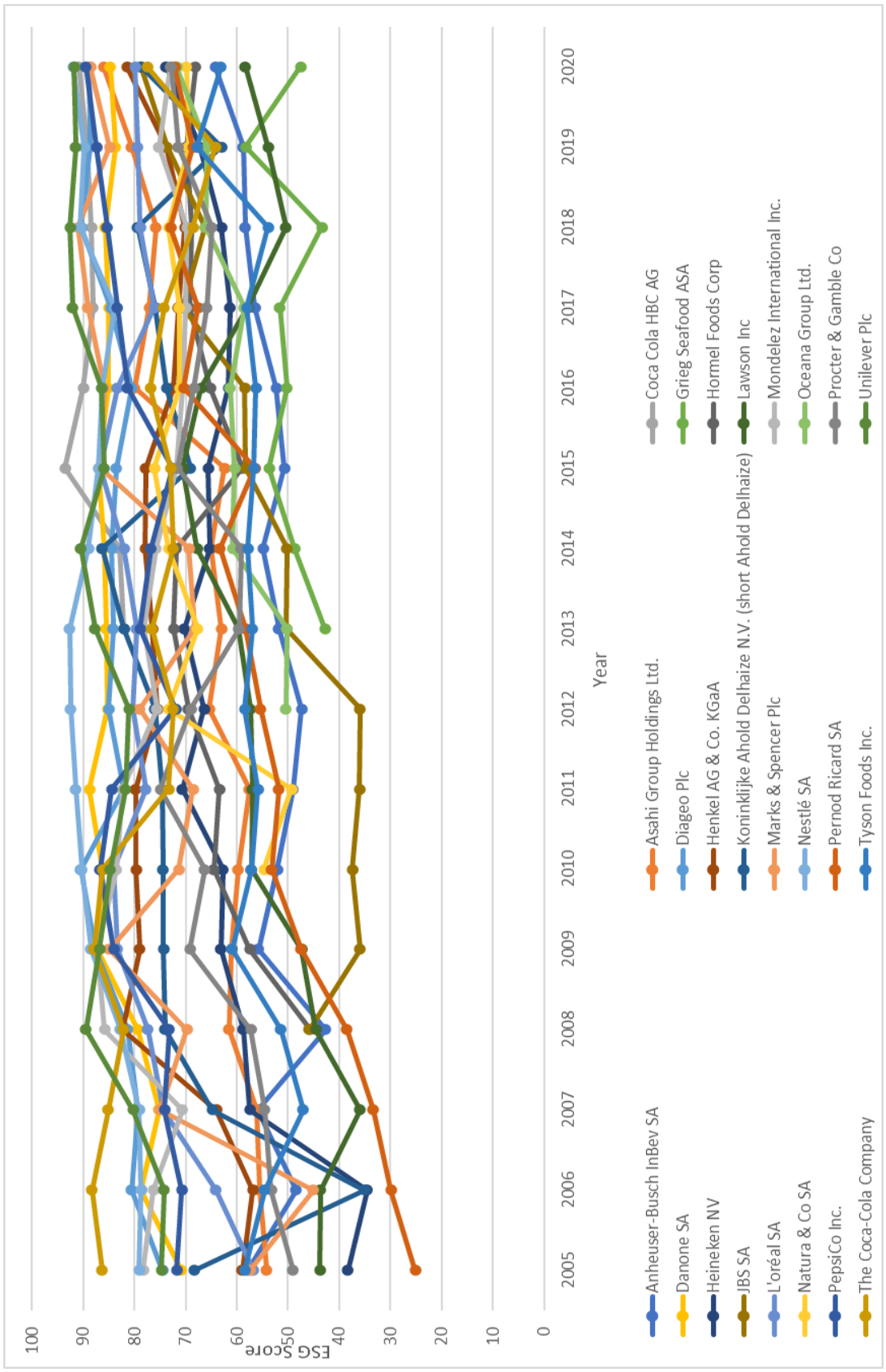
	Unit of Measurement	*n*	*Mean*	*Min*	*Max*	*SD*
1. ESG	Score of 0-100	350	69.98	25.19	93.57	14.31
2. ROE	Percentage	311	72.23	-11.75	156.21	17.24
3. ROA	Percentage	299	7.12	-5.23	34.4	4.5
4. Net Margin	Percentage	292	958.87	-721	3369	616.63
5. Total Assets	Million US $	347	168,949.83	797.84	4,439,378.00	483,717.27
7. Board of Directors	Total number	333	12.29	5	18	2.8
8. Firm Age	Years	260	109.24	0	261	53.93
9. Integrated Reporting	Dummy Variable	278	.29	0	1	.46

Note: Own illustration

Independent Variable: Total ESG Score

Regarding the independent variable, Figure 13 presents an overview of the development of ESG scores by company names during the period 2005-2020. No missing values were recorded for this variable. In terms of range, ESG scores lie between 25.19 and 93.57, with a relatively high mean of 69.98. This indicates that, on average, companies in the data set had relatively high ESG performances. Most notably is the development of Pernod Ricard from a score of 25.19 in 2005 (classification as an ESG laggard) to 79.89 in 2020 (classification as an ESG leader) according to the Refinitiv classification system (see Figure 12). Coca-Cola HBC AG obtained the highest scores in 2015 (93.57), Nestlé SA in 2013 (92.64), and Unilever Pls. in 2018 (92.53), which classifies these companies as ESG leaders. Moreover, Grieg Seafood ASA had overall the lowest index, with the most recent score being 47.55 in 2020. This indicates that Grieg Seafood ASA is classified with a C score with moderate performance. Overall, there is a clear upward pattern recognizable over the years, showing that the overall ESG performance of firms increased.

Figure 13: Development of ESG Scores by Company



Note: Own illustrations

Dependent Variables: ROE, ROA, and Net Margin

Generally, values for ROE lie within the range of -11.75% to 156.21%, with a mean value of 72.23%. The relatively low standard deviation of 17.24 indicates that data is rather clustered around the mean. In total, 311 observations were found. Regarding ROA, data varied between -5.23% and 34.4%, with a standard deviation of 4.5, which means that data is relatively little spread out. In comparison to ROE, fewer values were recorded (299). For net margin, 292 observations were recorded. The values range from -721% to 3369%, with a standard deviation of 616.63.

Moderator Variable

The moderator variable, integrated reporting, is analyzed as a dummy variable where 1 indicates the use of integrated reporting and 0 stands for no use of integrated reporting. A score of 0 thus shows that the firms published a sustainability and a financial report separately. The mean value is .29, showing that 29% of observations represented in the data set consisted of companies using integrated reporting.

Control Variables

For the control variable, Total Assets, 347 observations were found, ranging from 797.84 to 4,439,378.00. Total Assets has a mean of 168,949.83, indicating the average amount of assets used as a measure of firm size. The variable Board of Directors Size showed a minimum value of 5 and a maximum of 18, with a mean of 12.29. Hence, on average, the size of the board of directors was 12. The standard deviation is low at 2.8, and 333 values were obtained. Lastly, the firm age showed a range of 0 to 261 years. A minimum of 0 was recorded for Coca-Cola HBC AG, founded in 2013. Firm Age had a standard deviation of 53.93 and 260 recorded values.

Pearson's Correlation Coefficients

Tables 8, 9, and 10 indicate Pearson's correlation coefficients of the predictors and the outcome variables. Negative correlations are indicated by the notation (-). Table 8 presents the correlations for the models using ROE as the outcome variable. Table 9 includes the correlation results for ROA, and lastly, Table 10 shows the results for Net Margin.

Concerning the models focused on ROE, Pearson's correlation coefficient for the independent variable ESG is statistically significant at the one percent level ($p < .01$), as can be observed in Table 8. The correlation has a moderate value of .350. This indicates a positive relationship of

moderate strength between ESG and ROE. Although correlation is not equal to causation, it gives a first indication that H1 might hold. The control variables have no significant effect on ROE, except Total Assets, which shows a significant weak negative correlation of -.152.

Table 8: Correlations for Return on Equity

	1	*2*	*3*	*4*	*5*
1. ROE					
2. ESG	.350**				
3. Total Assets	-.152**	-.05			
4. Board of Directors	.052	.21**	-.146**		
5. Firm Age	-.035	.133*	-.025	.101	
6. Integrated Reporting	-.02	.088	.201**	-.322**	-.091

Note: Own illustration

[a] Values for Integrated Reporting: 0 = no use of Integrated Reporting (<IR>), 1 = use of <IR>

*** p = 0.001, **p < 0.01, *p < 0.05, † p < 0.10 (two-tailed)

Regarding Pearson's correlation coefficients for the ROA models, ESG shows a moderate positive correlation with ROA (.394), as shown in Table 9. This correlation is statistically significant at the one percent level (p < .01). The ESG-ROA correlation is stronger than the correlation between ROE and ESG. Remaining variables with a significant correlation to ROA are Total Assets (-.19**), Board of Directors (.20**), and Integrated Reporting (-.159*). Latter might indicate that <IR> negatively influences the ESG-ROA relationship and will be further analysed in Chapter 5.2.

Table 9: Correlations for Return on Assets

	1	*2*	*3*	*4*	*5*
1. ROA					
2. ESG	.394**				
3. Total Assets	-.19**	-.05			

4. Board of Directors	.20**	.21**	-.146**		
5. Firm Age	-.981	.133*	-.025	.101	
6. Integrated Reporting	-.159*	.088	.201**	-.322**	-.091

Note: Own illustration

[a] Values for Integrated Reporting: 0 = no use of Integrated Reporting (<IR>), 1 = use of <IR>

*** p = 0.001, **p < 0.01, *p < 0.05, † p < 0.10 (two-tailed)

Lastly, Table 10 displays the correlation coefficients for the models using Net Margin. Again, ESG and the dependent variable show a positive correlation (.338), statistically significant at the one percent level (p < .01). However, the magnitude of the effect is weaker than for ROE and ROA. Total Assets (-.203**), Board of Directors (.364**), and Firm Age (.445**) show significant correlations with Net Margin.

Table 10: Correlations for Net Margin

	1	*2*	*3*	*4*	*5*
1. Net Margin					
2. ESG	.338**				
3. Total Assets	-.203**	-.05			
4. Board of Directors	.364**	.21**	-.146**		
5. Firm Age	.445**	.133*	-.025	.101	
6. Integrated Reporting	-.105	.088	.201**	-.322**	-.091

Note: Own illustration

[a] Values for Integrated Reporting: 0 = no use of Integrated Reporting (<IR>), 1 = use of <IR>

*** p = 0.001, **p < 0.01, *p < 0.05, † p < 0.10 (two-tailed)

5.2 Effect of Corporate Social Performance on Corporate Financial Performance and Moderating Effect of Integrated Reporting

Tables 11, 12, and 13 show the main results of the regression analyses for Models I-III, Models IV-VI, and Models VII-IX, respectively. The first columns indicate the results of the models without time lag, and the second column the results of the models with a one-year time lag. The third column tested the moderator effect of integrated reporting on the ESG-CFP relationship. The tables show the unstandardized regression coefficients "b" and the respective standard errors in parentheses. Significance levels are measured by two-tailed tests.

Results Regression Model I: ROE, no time lag

The first regression model (t+0) is significant, F (5, 217) = 6.653, p = .001, R^2 = .133. The adjusted R^2 (.113) analysis concludes that this model explains 11.3% of the variance in the dependent variable, ROE. Since this result is significant at the 0.1 percent level, there is clear evidence to reject the null hypothesis, which indicates that the model has no explanatory power. To analyze the impact of each predictor variable independently, the unstandardized coefficients were interpreted. The ESG coefficient reveals statistically significant results at the 0.1% level. Everything else held constant, for every one unit of change for the predictor variable, ROE will increase by .488 units. Hence, it is possible to make meaningful statements toward H1, which suggests that ESG is positively linked to CFP measured by ROE. The results for the control variables are not statistically significant. To sum up, Model I provides empirical evidence that ESG has an immediate (no time lag) positive effect on ROE. Thus, H1, declaring that ESG fosters CFP, can be confirmed.

Results Regression Model II: ROE, time lag

The second regression model (t+1) Model II is used to understand whether the relationship between ESG and ROE develops over time. Hence, the dependent variable was lagged by one year to determine whether this effect is stronger or weaker in the long run. Model II is significant, F (5, 200) = 5.140, p = .001, R^2 = .114. However, it explains only 9.2% of the variance in Lag_ROE (adjusted R^2 = .092). The null hypothesis can be rejected due to the significance of the findings; however, the model does not have much explanatory power. Analyzing the unstandardized coefficients of ESG, it can be stated that a one-unit change in ESG is accompanied by a significant increase of .429 units in Lag_ROE, which confirms H1.

Results Regression Model III: ROE, interaction term

Model III is of interest to examine the interaction effect of integrated reporting on the relationship between ESG and ROE. The regression analysis provides statistically significant results, $F(3, 237) = 10.206$, $p < .0001$, $R^2 = .114$. Hence, 11.4% of the variance in ROE is explained by this model. Nonetheless, the interaction effect itself is insignificant, which means that the model cannot make meaningful statements regarding H2 stating that integrating reporting positively impacts the ESG-CFP relationship. Regarding H1, it was found that a one-unit change in ESG is accompanied by a significant increase of .5033 units in ROE. Hence, H1 can be confirmed.

To conclude, Models I, II, and III show significant results confirming H1, suggesting that ESG positively impacts CFP measured by ROE. However, Model III does not provide significant results regarding H2. Hence, no response to H2 can be made based on this regression result.

Table 11: Empirical Results Models I-III

	Dependent Variable: ROE		
	Model I (t+0)	Model II (t+1)	Model III (Interaction t+0)
ESG	.488***	.429***	.5033***
	(.108)	(.118)	(.1036)
Total Assets	-5.744E-6	-5.931E-6**	
	(.000)	(.000)	
Board of Directors	-1.044	-.877	
	(.481)	(.520)	
Firm Age	-0.30	-.028	
	(.022)	(.024)	
Integrated Reporting	-3.953	-1.205	.3692
	(2.907)	(3.124)	(15.4208)
Constant	5.572	7.140	-14.0893
	(8.727)	(9.808)	(7.5463)
Integrated Reporting x ESG			-.0347
			(.2063)
Observations	222	205	240
R2	.133	.114	.1144
Adjusted R2	.113	.092	.1144
Mean Square Residual	321.970	336.370	316.638
F-Value	6.653***	5.140***	10.206***
	(df = 5; 217)	(df = 5; 200)	(df = 3; 237)

Note: Own illustration

*** p = 0.001, **p < 0.01, *p < 0.05, † p < 0.10 (two-tailed)

Results Regression Model IV: ROA, no time lag

Regression Models IV-VI focus on ROA as the dependent variable. The fourth regression model (t+0) is significant, F (5, 213) = 10.357, p = .001, R^2 = .196. The adjusted R^2 (.177) analysis found that this model explains 17.7% of the variance in the dependent variable, ROA. Hence, this model has more explanatory power than the models with ROE as the dependent variable. The ESG coefficient indicates statistically significant results at the 0.1% level. Everything else held constant, for every one unit of change for ESG, ROA will increase by .119 units. Hence, similarly to Model I using ROE, these results confirm H1. The outcomes for the control variables are not statistically significant except Integrated Reporting with an unstandardized coefficient of -2.105**.

Results Regression Model V: ROA, time lag

Model V investigates the relationship between ESG and ROA lagged by one year. The model is significant, F (5, 201 = 7.900, p = .001), R^2 = .164, explaining 14.3% of the variation in ROA. Analyzing the unstandardized coefficients of ESG, it can be stated that a one-unit change in ESG is accompanied by a significant increase of .105 units in Lag_ROA. This is evidence to confirm H1. However, in comparison to Model IV, the effect is weaker, and the model has less explanatory power than Model IV. Thus, this model shows that the relationship between ESG and ROA does not get stronger over time.

Results Regression Model VI: ROA, interaction term

Model VI tries to confirm or reject H2, suggesting a positive moderating impact of integrated reporting on the ESG-ROA relationship. The regression analysis provides statistically significant results, F (3, 234) = 18.0988, p = .001, R2 = .1883. Hence, 18.83% of the variance in ROA is explained by this model. Nonetheless, the interaction effect itself is insignificant. Similar to Model III, Model VI can neither confirm nor reject H2. Regarding H1, everything else held constant, for every one unit of change for ESG, ROA will increase by .1590 units, confirming H1.

To sum up, Models IV, V, and VI show significant results in favor of H1, suggesting that ESG strengthens CFP measured by ROA. However, Model VI does not provide significant results for H2, and it is impossible to reject or confirm H2 based on these results.

Table 12: Empirical Results Models IV-VI

	Dependent Variable: ROA		
	Model IV (t+0)	Model V (t+1)	Model VI (Interaction t+0)
ESG	.119***	.105***	.1590***
	(.025)	(.027)	(.0243)
Total Assets	-1.562E-6	-1.532E-6**	
	(.000)	(.000)	
Board of Directors	-.031	-.002	
	(.115)	(.121)	
Firm Age	-.006	-.005	
	(.005)	(.005)	
Integrated Reporting	-2.105**	-1.725	3.1785
	(.701)	(.736)	(3.6465)
Constant	1.177	7.140	-3.2479
	(2.074)	(9.808)	(1.7662)
Integrated Reporting x ESG			-.0715
			(.0488)
Observations	218	206	237
R2	.196	.164	.1883
Adjusted R2	.177	.143	.1883
Mean Square Residual	17.828	18.436	17.9723
F-Value	10.357***	7.900***	18.0988***
	(df = 5; 213)	(df = 5; 201)	(df = 3; 234)

Note: Own illustration

*** p = 0.001, **p < 0.01, *p < 0.05, † p < 0.10 (two-tailed)

Results Regression Model VII: Net Margin, no time lag

Models VII-IX utilize Net Margin as the dependent variable. Model VII (t+0) is significant, F (5, 190) = 17.946, p = .001, R^2 = .321. The adjusted R^2 (.303) analysis concludes that this model explains 30.3% of the variance in the dependent variable, Net Margin. This result is significant at the 0.1 percent level. In comparison to the models focusing on ROE and ROA as the dependent variable, this model has a higher explanatory power. To analyze the impact of ESG on Net Margin, the unstandardized coefficients were interpreted. However, it was found that the coefficient for ESG is not significant. Hence, no statements about H1 can be made based on Model VII.

Results Regression Model VIII: Net Margin, time lag

Model VIII, lagging Net Margin by 1 year, is significant, F (5, 182) = 16.873, p = .001, R^2 = .317. It explains 29.8% of the variance in Net Margin (adjusted R^2 = .298). Similar to Model VII, analyzing the unstandardized coefficients of ESG, it can be stated that the effect of ESG on Net Margin is statistically insignificant. Hence, H1 can neither be confirmed nor rejected.

Results Regression Model IX: Net Margin, interaction term

Model IX explores the interaction effect of integrated reporting on the relationship between ESG and Net Margin. The regression analysis provides statistically significant results, F (3, 214) = 15.7490, p = .001, R2 = .1809. Consequently, 18.09% of the variance in Net Margin is explained by this model. However, exactly like Models III and VI, the interaction effect is insignificant. Thus, again no meaningful statements regarding H2 stating that integrating reporting positively impacts the ESG-CFP relationship can be made.

In conclusion, for Models VII, VIII, and IX, the coefficients of the variables of interest are insignificant, which means that no statistically relevant conclusions toward the hypotheses can be made.

Table 13: Empirical Results Models VII-IX

	Dependent Variable: Net Margin		
	Model VII (t+0)	Model VIII (t+1)	Model IX (Interaction t+0)
ESG	8.243	.053	21.6476
	(.025)	(.033)	(3.6420)
Total Assets	0.000***	-2.293E-6***	
	(.000)	(.000)	
Board of Directors	24.707	.206	
	(14.381)	(.146)	
Firm Age	4.167***	-.045***	
	(.689)	(.007)	
Integrated Reporting	-58.035	-.282	-91.6649
	(95.643)	(.007)	(559.0408)
Constant	-250.106	-.290	-519.3443
	(268.502)	(2.645)	(261.5791)
Integrated Reporting x ESG			-.4882
			(7.9176)
Observations	195	187	217
R2	.321	.317	.1809
Adjusted R2	.303	.298	.1809
Mean Square Residual	26887.124	440.535	345024.236
F-Value	17.946***	16.873***	15.7490***
	(df = 5; 190)	(df = 5; 182)	(df = 3; 214)

Note: Own illustration

*** p = 0.001, **p < 0.01, *p < 0.05, † p < 0.10 (two-tailed)

6. Discussion and Conclusion

This last chapter will summarize the main results of the analysis, allowing for theoretical and practical implications. Finally, the limitations of this study and opportunities for future research will be discussed.

6.1 Summary of Main Results

This paper investigates the relationship between CSP (proxied by the Total ESG Score by Refinitiv) and CFP (measured by ROE, ROA, and Net Margin) to answer the research question *'To which extent does Corporate Social Performance (CSP) influence the financial performance of Multinational Companies in the fast-moving consumer goods (FMCG) industry?'*. A Pearson correlation analysis and nine multiple linear regression models were conducted on a panel dataset of 24 MNCs in the FMCG industry from 2005 to 2020. In total, the dataset consists of 350 observations. While the Regression Models I-III use ROE as the dependent variable, Models IV-VI utilizes ROA, and Models VII-IX Net Margin. For all three dependent variables, the relationship between CSP and CFP was measured involving no-time lag, containing a one-year time lag, and including integrated reporting as moderator.

The findings of Models I, III, IV and VI reveal that there is an immediate (no time lag) statistically significant relationship between ESG and ROE and ESG and ROA. These results prove that the relationship between ESG and ROE is positive and of moderate strengths (unstandardized coefficient Model I = .488, and unstandardized coefficient Model III = .5033). The ESG-ROA relationship is positive and of weak strengths (unstandardized coefficient Model IV = .119, and unstandardized coefficient Model VI = .159). Moreover, Models II and V, including a one-year-time lag, provide significant evidence that ESG and ROE (unstandardized coefficient Model II =.429) and ESG and ROA (unstandardized coefficient Model V =.105) are positively linked. This indicates that the CSP-CFP relationship develops over time, although the strengths of the relationships are stronger for the models without time lag. Despite the insignificant results for the ESG-Net Margin relationship (Models VII, VIII, and IX), it can be clearly stated that CSP has a positive effect on CFP as measured by ROE and ROA. Hence, this thesis presents significant evidence that H1 holds, suggesting that CSP positively influences an MNC's CFP.

Moreover, this thesis examines the role of an MNC's status on integrated reporting on the CSP-CFP relationship. However, the findings of Models III, VI, and IX, including integrated

reporting as a possible moderator, reveal insignificant results. Thus, H2, stating that integrated reporting will positively moderate the CSP-CFP relationship insofar as MNCs that use integrated reporting will be more likely to improve their financial performance through shared value creation than MNCs that do not use integrated reporting, can neither be confirmed nor rejected.

6.2 Theoretical Implications

To the knowledge of the author, this is the first thesis to investigate the ESG-ROE, ESG-ROA, and ESG-Net Margin relationships for MNCs in the FMCG industry from 2005 to 2020. Hence, the choice of the population and the period enable this research to provide new empirical evidence on the topic of CSP and CFP. Overall, the data presented in this study shows that there has been an increasing ESG performance reflecting the growing importance of CSR initiatives (see Figure 13). For the 24 FMCG companies analyzed during the period 2005 to 2020, an upward pattern in the ESG score reflecting the MNC's CSR actions can be observed. This is aligned with an increasing need to address social and environmental issues due to the growing urgency of climate change (European Environment Agency, 2020; NASA, 2020). Moreover, this upwards pattern for ESG actions reflects the increasing demands of stakeholders regarding a firm's CSR behavior, as identified by various scholars (e.g., Mohr et al., 2001; Rahim et al., 2011; Grimmer & Bingham, 2013).

The findings of this research are consistent with the stakeholder theory, suggesting that the essence of companies is found in their relationships with stakeholders and in their ability to create value for all stakeholders (Freeman, 1984). Hence, the theory indicates that generating shared value for stakeholders by investing in socially responsible behavior will fulfill stakeholders' expectations and ensure the firm's long-term success. Contrary, negative environmental and social actions, such as emitting large quantities of CO2 or mistreating employees, will unfavorably influence stakeholders' opinions of the company. In the context of shareholder theory, it is thus not surprising that MNCs that improve their CSP will benefit from an enhanced CFP due to stakeholder satisfaction.

While this study fails to find significant results for a moderator effect of integrated reporting on the CSP-CFP relationship, the findings do not provide contrary results either. Thus, based on the results of this research, it cannot be suggested that integrated reporting negatively impacts the CSP-CFP relationship. Hence, no statement toward the concept of CSV, according

to Porter and Kramer (2006; 2011), aiming at generating economic value while at the same time addressing societal needs by linking CSP and CFP, can be made.

6.3 Managerial Relevance and Practical Implications

This thesis implies that companies with above-average performance in CSR activities have a better CFP than MNCs with a below-average CSP. As companies have a strong influence on their CSR budget and initiatives, the findings provide relevant implications for corporate management. One of the main implications for management is that CSR should be fully integrated into managerial decision-making. From a strategic point of view, CSR increases MNCs' understanding of their environment. Hence, these implications are of use for corporate management when developing their strategic policy as sustainability-related aspects are increasingly considered by stakeholders. The new evidence could be explicitly valuable for companies in the FMCGs industry as this analysis focused on FMCG MNCs as a population.

The findings suggest that CFP benefits from CSP. In the interest of achieving a competitive advantage based on ESG performance, firms should take a proactive approach to improve their CSP beyond industry regulations. Companies should consider implementing improved CSR initiatives related to their core businesses to (a) improve stakeholder relationships, (b) differentiate the business from competitors, and (c) show accountability to investors. As a result, financial performance will increase.

First, investing in CSR will enable companies to enhance stakeholder relationships as CSR focuses on including societal interests in business decisions. As a firm receives its right to operate from acceptance within society, MNCs should acknowledge that markets are not only defined by economic needs but also by societal needs. Moreover, the mutual dependency of companies and society emphasizes the importance of addressing societal harms resulting in innovation and increased profits. For instance, due to authorities' objective to reduce threats emerging because of climate change, firms that comply with environmental regulations and actively invest in CSR activities are of strategic importance (OECD, 2016, p. 3). Furthermore, improved stakeholder management can result in the avoidance of negative press or customer or NGO boycotts. Hence, as MNCs are inevitably interconnected with various stakeholders, companies need to achieve an equilibrium among stakeholders' expectations as a necessary condition for the mid-long-term success of the company (Clarkson, 1995). These implications

are of use for corporate management when developing their strategic policy as sustainability-related aspects are increasingly considered by stakeholders.

Second, improved CSP shows accountability to investors. As a result of global competition, regulations in response to financial crises, and technology innovations, accounting professionals have criticized the traditional reporting model primarily focused on financial results (Dumay et al., 2016). Nowadays, the conventional accounting model does not sufficiently satisfy the information needs of stakeholders, especially investors, to evaluate a firm's global performance anymore (Flower, 2015). Hence, the focus of MNCs should shift to explaining to investors how an organization creates value over time which incontestably involves engaging in CSR activities. Thus, MNCs should appreciate that strategy, performance, risk, and sustainability are inseparable and should be discussed in reporting to attract investors. From an investor's point of view, investing in MNCs' having a high CSP involves opportunities for more robust and reliable investments.

Third, improving CSR performance can enable MNCs to differentiate themselves from competitors, especially in highly competitive industries like the FMCGs sector. In contrast, MNCs that consider ESG criteria as a cost might not receive better levels of CFP and lose their competitiveness in the mid-long term. As numerous studies have shown that customers are sensitive to a company's CSR actions (e.g., Mohr et al., 2001; Rahim et al., 2011; Grimmer & Bingham, 2013), an above-average CSR strategy in comparison to competitors can be a competitive advantage for MNCs. Moreover, an increasing number of customers are willing to pay more for sustainably manufactured products (Statista, 2020). Hence, CSR-driven products or services can directly improve the number of total sales (Weber, 2008). Due to increased customer awareness around CSR topics (Heyward, 2020), committing to CSR behavior can further allow MNCs to increase customer retention. This is particularly crucial in the FMCG industry as MNCs directly interact with and compete for customers with low switching costs.

6.4 Limitations and Future Research

Limitations emerged along with this study, which provides opportunities for future research. The main restraints of this research were observed in the insignificance of the findings regarding the interaction effect of integrated reporting, the availability of data on MNCs using integrated reporting, the selection of measurements, and finally, the statistical method used.

First, the insignificance of the findings of Models III, VI, and IX made it impossible to reject or confirm H2 indicating that integrated reporting has a moderator effect on the CSP-CFP relationship. Therefore, no conclusions toward whether the concept of CSV by Porter and Kramer (2006) holds can be drawn. There are several possible explanations for insignificant results: non-fulfillment of multiple linear regression assumptions, non-relevance of variables used in the models, and a small sample size. Since all variables were carefully analyzed for all four assumptions of multiple linear regression, as explained in Chapter 4.4.1, this possible explanation can be eliminated. Moreover, a thorough analysis of previous research was conducted before choosing the independent, dependent, and control variables. Hence, this source of error can be excluded in this case. Although many observations (350) were collected, missing values on the integrated reporting status were recorded. Hence, a small sample size of MNCs using integrated reporting can be a possible explanation for the insignificance of the findings. Consequently, future research on integrated reporting as a possible moderator of the CSP-CFP relationship is needed.

Second, there was a significantly greater availability of data for FMCG companies not using integrated reporting than for MNCs that apply integrated reporting standards. This might have impacted the insignificance of the findings regarding the models using a moderator. Greater data availability might lead to significant results due to a higher validity of the regression models. Future research should not limit the choice of companies to a specific industry to increase the availability of data on firms that use integrated reporting.

Third, no proxy is an exact reflection of reality, and hence, the choice of indicator always includes certain drawbacks. The Total ESG Score's main drawback is that it has been developed rather recently, and thus, data does not go back far in history (SEC's Asset Management Advisory Committee, 2020). Moreover, studies have found large disagreement across major ESG rating providers (Berg et al., 2020; Gibson et al., 2019), and survey findings have revealed that 26.4% of investment professionals denote a lack of ESG rating reliability (Amel-Zadeh & Serafeim, 2018). Regarding the measure of the dependent variable, a variety of accounting-based measures were available to assess financial performance. Although accounting-based indicators are the most used proxies for analyzing CFP, they are criticized for being limited to a single aspect of company performance and focusing on short-term past performance (Keats & Hitt, 1988; Lu et al., 2014). Hence, for future research, it could be interesting to compare results obtained with accounting-based measures to other indicators of CFP, such as market-based proxies.

Fourth, although many different measures of CFP were available, most variables on CFP proved not to fulfill the assumptions of multiple linear regression and hence needed to be excluded from the regression analyses. Out of 8 potential indicators to measure the dependent variable, only 3 fulfilled the assumption of linear regression. All these variables were measures of profitability and not of productivity. However, as stated by Porter and Kramer (2011), there are three levels on which shared value can be pursued, namely (a) redefining productivity in the value chain, (b) reconceiving products and markets aiming at increasing profitability, and (c) enabling cluster development to strive productivity further. The outcomes of these three approaches are measured in productivity and profitability increases. Hence, as it was impossible to include the productivity measures due to the non-fulfillment of the assumptions of linear regression, this study does only measure one of two possible outcomes of shared value creation. Thus, the different proxies may have impacted the results in a way that is inconsistent with reality. Future studies should include productivity measures to assess the dependent variable.

Moreover, the statistical method applied in this research presents some shortcomings. As discussed in Chapter 4.4, the significance of the regression analysis might vary depending on the chosen model and dataset (Aiken et al., 1991). Thus, the shortcomings of the selected measures and the limited availability of data discussed above might influence this analysis. Additionally, controlling for more independent variables in the nine regression models would have increased the internal validity of the research further and better explained the dependent variables' variation. This way, the adjusted R^2 of the models would have most likely increased. Future research could include, for instance, risk, audited by the Big 4, and research & development intensity as control variables (see, e.g., Lu et al., 2014).

Building on this research, a natural extension of this work would be to analyze how shared value can be measured differently. This thesis has focused on the first out of three measurement approaches presented by Porter et al. (2012) that analyzes the correlation between ESG indicators and the company's financial performance (see Chapter 2.2.3). Consequently, future research could measure CSV by using the second approach that assigns a monetary value to a company's environmental and social impact (Porter et al., 2012). Lastly, as defined by Porter et al. (2012), shared value measurement could also be used in future studies. Another research trend identified is that literature has gradually acknowledged the non-static nature of the CSP-CFP relationship. This aspect is particularly interesting as it would relieve some pressure on managers to achieve short-term profit maximization and instead focus on achieving long-term future success, aligned with the ideas of Porter and Kramer (2006). Hence, more research,

including a longer time lag of two to five years, might shed more light on the relationship between CSP and CFP. Equally interesting might be to investigate the extent to which other emerging accounting practices, such as impact accounting, influence the CSP-CFP relationship.

Word count: 24,732 words

7. References

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8. Affidavit

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