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**The Bidirectional Relationship between CSR Investments and Economic Performance:
An Analysis Using a Simultaneous Equations Model**

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Abstract

This paper investigates the bidirectional relationship between corporate social responsibility (CSR) investments and economic performance. We analyze three types of CSR investments: investments in environmental protection initiatives (environmental investments), investments in labor-related initiatives particularly those that promote women's employment (female labor-related investments), and investments in all other initiatives that contribute to society (other social investments). Further, we identify the determinants of these CSR investments and determine the effect of each type of investment on firm performance. The analysis uses a simultaneous equations model with a dataset of 185 Japanese firms. We find that environmental investments reduce economic performance, labor-related investments do not significantly affect economic performance, and other social investments increase economic performance. Moreover, we find that economic performance decreases environmental investments, increases labor-related investments, and does not affect other social investments. These results have important implications for both firm managers and policy makers. For managers, the results suggest that CSR investments are not necessarily effective for improving economic performance. However, this does not mean that firms should completely eradicate CSR investments. Rather, this result suggests that CSR investments are a hygiene factor in that they do not necessarily lead to higher performance, but their absence can worsen performance. For policy makers, the results suggest that different approaches may be adopted to encourage firms to increase their CSR investments. For example, policy makers can implement policies to encourage firms or rely on the firms' initiatives. Which approach is effective depends on the type of CSR investment and how the firms view the types of CSR investment.

Keywords: corporate social responsibility; economic performance; simultaneous equations model; corporate reputation; Japanese firms

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