Corporate social responsibility and its link to financial performance

Application to Johnson & Johnson, a pharmaceutical company

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Abstract

Purpose – This paper applies the social contract and legalistic ethical frameworks, to study whether or not corporate social responsibility (CSR) and sustainability support corporate financial performance. The purpose of this paper is to provide empirical data from Johnson & Johnson, a pharmaceutical firm, to document whether or not CSR has contributed to creating financial wealth and value for the corporation.

Design/methodology/approach – The paper approaches CSR as embedded in social contract and legalistic ethical frameworks, which suggest that business organizations are self-motivated to report on CSR. The underlying premise of the research is that socially desirable sustainable activities are expected to improve financial performance.

Findings – A case study of a multinational corporation (MNC) and CSR member company, Johnson & Johnson, substantiates that CSR and sustainability have contributed to improve the organization's economic performance. The empirical evidence from Johnson & Johnson suggest that profitability can be sustained for a long period of time if economic performance is effectively integrated with social and environmental goals, as part of the business strategic planning process, to benefit shareholders, consumers, society and the community at large. When CSR is incorporated in business strategies of sustainability, including social and environmental performance, it complements economic profitability objectives.

Originality/value – The contribution of this paper is in the extension and application of the importance of sustainability and CSR in the pharmaceutical industry. It is one of the few studies that examined the impact CSR and sustainability have on the financial and economic performance of the health care industry. The study has documented that sustainability promotes transparency, adherence, and disclosure that incorporates and promotes social equity, environmental restoration/renewal and financial performance. It is argued that in the long run, organizations that have integrated sustainability and CSR in their strategic planning processes are able to manage risks and take advantage of opportunities of programs that are safer, greener, and economical.

Keywords Business performance, Pharmaceuticals industry, Corporate governance, Corporate social reporting, Sustainability reporting, Social issues, Health care governance, Environmental and economic performance, Sustainability at Johnson & Johnson

Paper type Research paper

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Introduction

In the last few decades, the issuance of sustainability reports has become main stay in business practices. The Brundtland Commission created the overall concept of sustainable development in 1987 (The World Commission on Environment and

Development, 1987; Dilling, 2009, p. 19). Organizations such as the Global Reporting Initiative (GRI) have established sustainability reporting guidelines (SRG) on how to document and prepare a company's economic, environmental, and social performance. Corporate social responsibility (CSR) is part of sustainability reporting which is prepared to document "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (Moir, 2001, p. 18).

Currently, CSR and/or sustainability reporting does not have a "globally accepted definition" or framework that is mandatory (Dilling, 2009, p. 20). Companies are free to disclose any and all environmental and social activities that they have implemented. Corporations are motivated to engage in social responsibility for a number of reasons: to follow government regulations, to improve public image, to provide transparency to investors, and to improve economic performance. All of these reasons and others can help to improve the overall financial portfolio of a company.

The ethical implications of adopting any change in an organization's business practice should be examined. Two of the most relevant frameworks regarding social responsibility, the social contract theory and legalistic approach, will be used to evaluate the ethical implications of CSR. Social contract theory embodies, "a series of social contracts between members of society and society itself" (Moir, 2001, p. 19). This means that organizations and its stakeholders should try to achieve a mutually beneficial relationship to promote and protect each other's interests. The legalistic approach is the strict adherence to a law or code. This is when an organization meets the mandatory requirements imposed by government.

This paper will study if the social contract and legalistic ethical frameworks of CSR promote improved corporate financial performance. In other words, the paper's research objective is to provide empirical data from Johnson & Johnson, a pharmaceutical firm, that demonstrate whether or not CSR has contributed at creating financial value at an organization.

Research questions

Business organizations, customers, investors, and government regulatory organizations at the federal, state, and local levels have shown increasing interest toward CSR and sustainability in all aspects of life. It is not surprising to see nowadays business organizations are self-motivated to report on CSR, because it is assumed that socially desirable activities are supposed to positively improve financial performance.

In order to study the relationship between CSR and improved financial performance, we have selected a, multinational corporation (MNC) and CSR member company, Johnson & Johnson. We chose Johnson & Johnson as a case study to substantiate if CSR has positively impacted the organization's economic performance. Johnson & Johnson is selected because it is currently a member of CSR Europe and was named the third Most Reputable Company in the USA by the Reputation Institute in 2011 (Johnson & Johnson, 2011, p. 73). It is a multi-billion MNC pharmaceutical company that operates globally. Its products have social and economic implications not only on customers, but also on the environmental and natural resources of the world where it operates. The company has been noted and included in this study because it follows the GRI G3 guidelines to issue sustainability reports on the company's economic, social, and environmental performance (Johnson & Johnson, 2011, p. 3).

Literature review

CSR "suggests that businesses are motivated by more than just self-interest and it actually promotes the collective self-interest of society" (Idowu and Papasolomou, 2007, p. 139). CSR reports on the environmental, economical, and social aspects that directly and indirectly influence businesses. These topics can include among others issues related to pollution, charitable work, or indirect economic impacts.

CSR directly impacts not only the corporations or organizations that implement these practices but also stakeholder groups, for example, investors, employees, regulators, activists, and communities. Socially conscious investors are using socially responsible investing techniques that incorporate both the financial and ethical good to determine whether or not these companies meet socially desirable investment guidelines. CSR reporting can aid companies to attract socially responsible stockholders who would be interested in investing in the company. Blowfield (2007) reported that "there are roughly 200 social funds in the USA and 800 in Europe, and there has been growth in ethical mutual funds, especially in the UK, which accounts for two-thirds of the European market" (p. 692). If these ethical mutual funds are found to compete or possibly outperform other mutual funds, then this could encourage more companies to publicize their ethical business practices in order to be included in these mutual funds. Investors may choose to continue to invest in ethical companies to benefit themselves financially but to also support the sustainable practices employed by these organizations.

Employees can benefit from CSR if the organization promotes initiatives that improve the work environment and worklife balance. Regulators are able to measure reported progress in a CSR report issued by a company against specific government standards to determine if regulations are being satisfied. CSR reporting can keep activists informed of a company's commitment and progress toward a more sustainable existence. Communities benefit from CSR since corporations can influence a communities' living space positively or negatively through active involvement in social and environmental programs including pollution control, resource sustenance policies as well as cultural and civic activities. These concerns of business organizations have their roots in the landmark publications of the Brundtland Report (1987).

i. The Brundtland Report – the foundation for CSR reporting

In the late 1980s, the World Commission on Environment and Development was formed to give a report on "the accelerating deterioration of the human environment and the natural resources, and the consequences of that deterioration for economic and social development." The Brundtland Report for the first time framed the importance of sustainability development into the future well-being of society and natural resources management. After three years of work, the commission produced a report entitled, *Our Common Future*, referred as the "Brundtland Report." The report defined "sustainability" as "the ability of the present generation to meet its needs without compromising the ability of future generations to meet their own needs" (The World Commission on Environment and Development, 1987).

The Brundtland Report (1987) recognized that humans are dependent on the environment to meet their needs, and the well-beings of society are linked on the balance between ecology and economic growth. It suggested that human activities and existence depended on the balance between exploitation of resources and environmental protection and conservation, and that environmental problems are not local and regional, but national and international issues. The report emphasized increased global trade and industry growth models that focus in merging economic and environmental issues in decision making, human involvement and participation in economic development, and an emphasis on equity and social justice. Sustainable development was promoted as having a broader transformational view of society with commitment to social equity goals (Mog, 2004). These concepts formed to link the underlying economic concepts of productivity and growth with the advancement of social and environmental welfare.

ii. The adoption of the Brundtland Report (1987) by business organizations

The publication of the Brundtland Report brought the importance of supporting CSR and sustainability by MNCs that operate globally, particularly those businesses whose products and services have a direct bearing and impact on natural and environmental resources. Business organizations were challenged to envision a future in which the threats of environmental destruction are minimized and the people of the world benefit from economic stability and social equity for the present and future generations (Sisaye, 2012). Among those MNCs that embraced the Brundtland Report of 1987 was Johnson & Johnson.

While the concept of sustainability was around for some time, the publication of the report gave prominence to sustainability, environmental management, and conservation. Business organizations incorporated in CSR the interests of the various stakeholders, such as investors/owners, employees, and/or regulatory agencies. Once social and environmental criteria are established, corporate activities are then evaluated considering the relationship they have with the different stakeholders, i.e., the general public, employees, customers, suppliers, and competition. This formed the basis for CSR and sustainability to be integral in corporate reports to respond to the information needs of various stakeholders of business organizations.

Since businesses are deeply intertwined with communities, it is important that businesses can function as part of society by working closely with their stakeholders to positively manage external environmental and competitive influences. "As a result, CSR is not something with its own discrete outcomes, but an approach that helps business manage its relationship with society" (Blowfield, 2007, p. 693). With so many interest groups to satisfy, organizations are challenged to find mediums of communications to report social and sustainability information to all of these concerned groups.

An organization that is acting in a socially responsible manner needs to establish how to publicize its positive impact on society. There are a few methods that organizations can choose to disseminate their sustainability practices. Currently, there is no mandatory or regulated method for reporting sustainability (Christofi *et al.*, 2012). Some companies choose to include the information in their published annual reports, while others announce information through a separate sustainability report or sustainability web site. The GRI provides a standard that corporations can adopt as a framework for sustainability reports.

iii. GRI

Key areas included in the GRI G3 guidelines reported under social category include labor, human rights, society, and product responsibility. Main areas of focus in the labor category include overall employment, diversity and equal opportunity, occupational health and safety, and labor-management relations among other aspects influencing labor relations (GRI, 2011, p. 32). Human rights describe organizations' policies and practices on child labor, non-discrimination, and indigenous rights (GRI, 2011, p. 33). The society category provides information on local communities, corruption, and compliance (GRI, 2011, p. 34). Product responsibility represents any information regarding customer health and safety, product labeling, and compliance (GRI, 2011, p. 36). The performance of any type of organization can be measured against these sets of guidelines to determine if specific goals are being met. The GRI includes more specified measures within all the defined categories in order to enhance the information provided by an organization with regards to its socially responsible practices.

The G3 SRG of the GRI, elaborated that "new knowledge and innovations in technology, management, and public policy are challenging organizations to make new choices in the way their operations, products, services, and activities impact the earth, people, and economies […] Transparency about the economic, environmental, and social impacts is of interest to a diverse range of stakeholders […] This is why GRI has relied on the collaboration of a large network of experts from all these stakeholder groups to provide a trusted and credible reporting framework, consistent language, and metrics that can be used by organizations of any size, sector, or location to provide a trusted and credible framework for sustainable reporting." Hence, GRI, in their SRG G3 version, introduced three levels of application declaration ranging from C for beginners, to A for advanced reports for corporations who have extensive experience with sustainability reporting. The reporting criteria at each level reflect a measure of the extent of application or coverage of the GRI's SRG. Furthermore, in the self-declaration level, any organization can self-declare a "plus" (+) next to their level, if they have used external assurance, and/or have the external assurance provider (GRI or other) offer an independent opinion on their self-declaration of meeting sustainability goals (Christofi *et al.*, 2012).

Organizations that have used GRI's SRG as the basis for their report are also requested to notify the GRI upon the release of the report and provide them with a copy; register their report on GRI's online database of reports; and request that GRI checks their self-declared application level. Though such reporting is voluntary, those organizations that follow these guidelines can achieve continuous performance improvement over time and communicate useful organizational-process information to their stakeholders.

The 2008 GRI Reporting List includes 905 reporting organizations that publish a GRI report by region, country, sector, and adherence level. Most of these organizations represent countries from Western Europe, Australia and the USA (Christofi *et al.*, 2012). Most of these company initiatives and achievements toward sustainability and sustainability reporting are influenced by their local and global regulatory organizations.

The importance of sustainability and CSR will continue to grow in the coming years. Investors and other stakeholder groups are increasingly demanding for transparency by corporations. Stakeholders want to know the details before investing in the capital stock of any organization. "It appears that these companies believe that issuing the report is an essential method of communication with stakeholders" (Idowu and Papasolomou, 2007, p. 141). From a social contract theory perspective, sustainability reports also provide a platform to display public image; corporations are able to show all of the positive influences the organization has on the community as well as environment. This can create additional customers who support the community involvement and initiatives in which the organization operates.

iv. Implementation of GRI guidelines: evidences

We suggest that the implementation of GRI guidelines of reporting follows the legalistic approach to CSR. It suggests adherence by business organizations to laws and regulatory requirements of sustainability where voluntary conformance to these requirements are self-reported through the issuance of CSR reports. Organizations can use CSR to document their adherence to social contract and legalistic requirements by publicizing the report on the declining or decreasing amounts of fines paid out to implement or continue their sustainable practices. Lastly, CSR is expected to improve financial performance. Dilling (2009) stated that, "it is hypothesized that long-term growth in sales revenues is positively related to the publication of a G3 report" (p. 21). The financial performance of an organization will have a lasting effect on whether or not a company succeeds in the long term.

We suggest that there are positive relationships between business sustainability practices and improved organizational (financial) performances. For example, Rennings *et al.* (2003) suggested that there are two measures for sustainability performance. "The first measure evaluates the environmental and/or social risks of the industry to which a company belongs (compared with other industries). The second measure evaluates the environmental and social/or social activities of a corporation relative to the industry average" (p. 36). These social activities become sources of social awareness to minimize the negative environmental consequences that include emission or other harmful substance that would result in suits or regulatory penalties due to non-compliance. They found that companies with a "higher environmental sector performance" (i.e. a lower degree of environmental risks) to have a significant positive effect on the average monthly stock return between 1996 and 2001. According to their results, the investments in stock market rewards of corporations with clean environmental sectors or policies (with otherwise similar economic characteristics measured by financial variables) with a "premium" when compared to companies with high social performance (Rennings *et al.*, 2003, p. 40). Their study suggests that environmental and/or social factors play important roles in reducing both costs and thereby increasing economic performance, supporting that, organizations can restructure their investment portfolios toward industries that simultaneously reduce sector specific environmental and/or social risks and increase economic performance.

Most investors perceive a positive link between social, ethical, and environmental reporting and financial performance. Accordingly companies over the years have increased the amount of space devoted to environmental reports and accounts of social impacts in their annual reports as well as in the publication of stand-alone environmental reports. In other words social, economic, and environmental disclosures provide educational and pedagogical processes to understand the environmental and ecological dimensions and objectives of sustainable reporting (Thomson and Bebbington, 2005). As an educational process, companies can selectively prepare reports where they have significant impact in social and environmental programs such as pollution control, resources conservation, and control of environmental degradation.

In other words, CSR has a potential for decreasing regulatory costs or fines that come from following regulations. If an organization must highlight its wrongdoings it is more likely to fix the problem than incur the costs associated with legal fees and adverse corporate publicity. CSR also requires companies to treat employees better; this in turn can help improve the productivity and then profitability of the organization. "With employees, CSR activities may lead to the ability to hire and retain high-quality staff as well as to improve worker health and morale" (Lankoski, 2008,

p. 540). If corporations are more transparent with stakeholders, this could help to improve customer loyalty and satisfaction, improve the firm's public image and attract additional customers that might not have known about products and services without the issuance of a sustainability reports. But there are also costs involved in a corporation adopting these practices into its business strategy.

Some research in the area of implementation shows that there can be increased costs due to hiring or consulting with experts who are able to advice, plan, and implement additional sustainable practices in an organization. "CR activities may increase production costs because they may require management time, capital investments, and operating costs" (Lankoski, 2008, p. 540). Another potential risk factor is implementing a sustainable practice that does not add value to the business. Since sustainable development needs to be approached with a long-term perspective, organizations might not be able or willing to dispose of practices that would not create improved financial performance in the long run.

The current literature on the subject of CSR and sustainability suggests that organizations are motivated to report and engage in socially respectable practices (Sisaye, 2012). If a company did not feel as though it was receiving any benefit, would it still be willing to report on sustainable developments? "About 70% of the studies reviewed showed a positive and statistically relevant relationship between CSR and financial performance" (Dilling, 2009, p. 22). This paper will investigate if this reported statistic holds true and/or not for internationally renowned corporation, Johnson & Johnson.

Findings: the case of Johnson & Johnson CSR and GRI G3 guidelines

Johnson & Johnson report its CSR practices according to the GRI G3 guidelines by issuing sustainability reports. Since Johnson & Johnson reports on many of the key performance indicators specified by the GRI, this paper will summarize one of Johnson & Johnson's initiatives included in each of the four areas identified by the GRI as significant.

i. Fair labor practices

In the labor section of the GRI, Johnson & Johnson follows LA8: Occupational Health and Safety (Johnson & Johnson, 2011, p. 48). Through its Workplace Health Protection program, Johnson & Johnson proclaimed that the motto of the company is to "prevent and protect [J&J] employees from potential harm and to care for any employee with work-related injury or illness" (Johnson & Johnson, 2011, p. 48). It is evident that promoting and supporting the health and safety of employees can positively impact employee morale as well as improve productivity.

ii. Human rights policies

Johnson & Johnson also promotes about human rights by addressing HR 6 and 7 on child labor and forced and compulsory labor (GRI, 2011, p. 34). In response to these objectives, Johnson & Johnson "maintain[s] a policy on the employment of young persons that requires suppliers to abide by specific rules when employing persons under 18 […] [J&J] policy extends to all [J&J] affiliates worldwide" (Johnson & Johnson, 2011, p. 39). This shows that Johnson & Johnson is not only concerned with its own employees but also the employees and communities of their suppliers and vendors, and other members of the business community and partners as well.

iii. Societal improvement programs

Johnson & Johnson promote societal improvements for all communities. Following GRI guideline SO3: Training and Anticorruption, "Johnson & Johnson operating companies met the training goal, as tracked by an on-line training application, with an overall annual anticorruption training completion rate of 99 percent, based on a targeted audience of more than 60,000 employees" (Johnson & Johnson, 2011, p. 26). Reviews of intermediaries' anticorruption policies ensure that others engaging with Johnson & Johnson in business also operate with integrity (Johnson & Johnson, 2011, p. 26). Promoting ways to end corrupt practices can improve the lives of many around the world.

iv. Product safety

Product responsibility is another area that the GRI addresses within social reporting. As with any pharmaceutical company, Johnson & Johnson are required to specifically label and package its products for safety by following PR1: Product and Service Labeling. In addition to adhering to this standard, Johnson & Johnson has achieved as part of Healthy Future 2015 Sustainability Goals, 60 Earthwards recognition for its improvements in sustainable products and packaging (Johnson & Johnson, 2011, p. 69). Earthwards is a process used by Johnson & Johnson to show at least a 10 percent improvement of its products through seven areas including reduction of natural resources (Johnson & Johnson, 2012, p. 9). Johnson & Johnson's adherence to these specified rules illustrates its dedication to engaging in ethical behavior.

Application of the legalistic and the social contract theory ethical framework

Johnson & Johnson's commitment to its customers, employees, and shareholders is apparent through its Credo and business practices. Johnson & Johnson Credo is the fundamental principle that reflects the organization belief that it has a responsibility to uphold ethical values. Johnson & Johnson stated as follows: "[J&J] are responsible to the communities in which we live and work and to the world community as well. We must be good citizens […] we must encourage civic improvements and better health and education" (Johnson & Johnson, 2011, p. 82). These statements support Johnson & Johnson's social contract obligations and commitments to positively impact societies with its sustainability practices.

As previously stated, the legalistic approach is about following a strict set of guidelines. With this ethical approach, Johnson & Johnson must be in compliance with workplace labor laws with regards to hiring practices, discrimination or harassment, and child labor. Johnson & Johnson must also be in compliance with package and labeling standards and anticorruption laws. Following this ethical framework only requires an organization to meet the minimum requirements imposed by regulations. While this standard is adequate for a company to maintain, Johnson & Johnson have demonstrated a fundamental progress that has strategic significance that goes beyond the minimum legal requirements to achieve lasting sustainable development.

Social contract theory states that there is an unstated social agreement between the business organization and the community at large to promote economic well-being, social programs, and environmental protection and preservation from adversely impacted from corporate activities: products and services in the region. This theory can be applied to agreements between stakeholders and corporations. Johnson &

Johnson uphold its end of the social contract requirements by going above and beyond its legal obligations for its employees, customers, and other stakeholders. For employees, Johnson & Johnson promote healthy lifestyle by providing a health profile assessment, which can help to identify health risks such as high blood pressure, to employees as well as family members and communities (Johnson & Johnson, 2011, p. 47). Workplace safety is also provided for employees, so that the employees uphold the agreement by diligently working for the corporation. Johnson & Johnson also protect children by making sure that it is following child labor laws.

Customers are protected by Johnson & Johnson's accountability to manufacture high-quality products as stated in its Credo. In cases where quality is compromised, the company will recall the product and does its best to correct the errors that have occurred. By going above and beyond that which is regulated on the company, stakeholders would be willing to protect the company from harm by not litigating against Johnson & Johnson for minor problems. It also encourages customers to continue buying Johnson & Johnson products, if customers know that it strives for high-quality products. Johnson & Johnson uphold its agreement with shareholders who are willing to invest capital in the organization; the company engages in actions that will be profitable in order to fulfill its fiduciary duty to stockholders. Johnson & Johnson's decision to act ethically and its ability to promote the social responsibility could have a positive effect on its financial performance.

Empirical evidence: is there a relationship between Johnson & Johnson CSR and its financial performance?

Johnson & Johnson is a company with a long history of acting ethically in the face of problems. In the early 1980s, there was a Tylenol recall due to the deaths of six individuals from making Tylenol that was laced with arsenic. In order to fix this problem, Johnson & Johnson recalled all the Tylenol in capsule form and reissued it in pill form to protect its customers; the company also developed a new tamper proof seal to stop this problem from reoccurring. Over the years, Johnson & Johnson had to respond to many crises.

Tables I and II are charts that relate to recent recalls of Johnson & Johnson products and the effects of these recalls on stock prices in the days after the recall announcements. On April 30, 2010, Johnson & Johnson recalled children's medicines after the discovery that the products did not meet quality standards. Table I shows the stock prices of Johnson & Johnson on the day prior to the recall through the day of the recall and the next three days following the recall. In Table I, the adjusted close on April 29 is approximately $5 less than the close, meaning that the recall announcement after the close of trading caused the stock price to decrease. The stock price maintains this pattern over the next few days. Johnson & Johnson also incurred

Table I.
2010 children's products recall

	Stock prices				
Date	Open	High	Low	Close	Adjusted close
April 29, 2010	64.85	65.34	64.85	65.01	60.52
April 30, 2010	65.13	65.34	64.30	64.30	59.86
May 4, 2010	65.07	65.28	64.41	64.70	60.23
May 5, 2010	64.58	65.29	64.44	65.14	60.64

another recall by DePuy Orthopaedics of hip replacements on August 26, 2010 (DePuy Orthopaedics Inc, 2010).

Table II illustrates the change in stock price of Johnson & Johnson in the day proceeding to the announcement and in the days following the announcement. The results shown in Table II illustrate the decreasing trend from the close price to adjusted close price after the news of the recall is announced. Since stock prices respond negatively to negative information announcements, one would infer that stock prices respond positively to positive information released, such as sustainability reports.

The financial performance of Johnson & Johnson should be compared to other financial standards to establish a baseline performance. In Figure 1, Johnson & Johnson common stock is compared to the performance of the S&P 500 and Dow Jones Index from January 2008 to January of 2012. Overall the trend in the data shows that Johnson & Johnson outperformed both of the stock indices. It can be inferred that the outperformance of Johnson & Johnson stock could be due to the organization's commitment to sustainability and social practices. Investors could see the long-term potential of sustainable development, which is why they chose to invest in Johnson & Johnson rather than the companies that represent within either or both of the indices.

Figure 2 is a comparison of Johnson & Johnson within its industry. The S&P Pharmaceutical Index and the S&P Health Care Equipment Index were graphed with Johnson & Johnson stock from 2006 to 2011. When compared to these indices,

	Stock prices				
Date	Open	High	Low	Close	Adjusted close
August 30, 2010	57.60	57.80	57.26	57.30	54.34
August 31, 2010	57.25	57.44	57.00	57.02	54.07
September 1, 2010	57.67	58.36	57.44	58.29	55.28
September 2, 2010	58.52	58.79	58.30	58.61	55.58

Table II. 2010 hip replacement recall

Figure 1. Johnson & Johnson comparison with S&P 500 and DOW

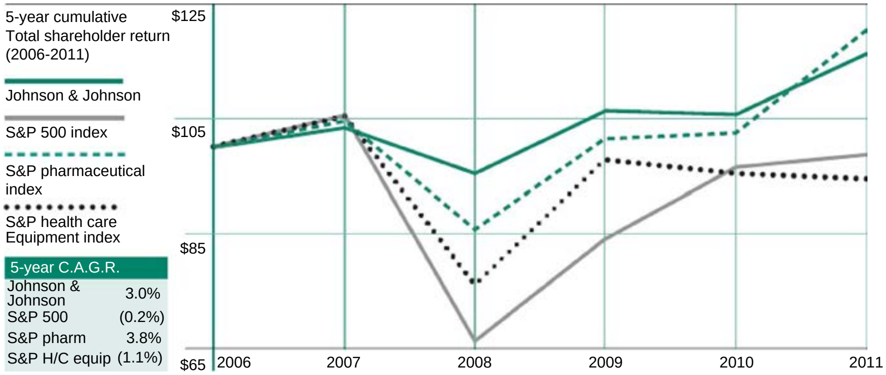

Figure 2.
Johnson & Johnson comparison with industry

overall Johnson & Johnson again outperformed the other companies within its industry. Johnson & Johnson must be attracting investors through additional benefits the company provides that others within the pharmaceuticals and healthcare equipment industry are not currently providing. This could be directly related to the implementation of CSR practices.

The most significant comparison performed in the study is between Johnson & Johnson and the Dow Jones Sustainability Index. The Dow Jones Sustainability Index monitors financial performance in terms of economic, environmental, and social criteria of global companies (Dow Jones Sustainability Indexes (DJSI), 2012). "The indexes serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt sustainable best practices" (DJSI, 2012).

Figure 3 shows the graphical comparison of Johnson & Johnson common stock to the Dow Jones Sustainability Index. The trend from May 2008 to March 2012 is that Johnson & Johnson stock moved first similar to DJSI patterns of performance. The patterns of the stock movement parallel each other. The correlation of the movement could be due to the integration of sustainable development in Johnson & Johnson as well as the companies represented in the DJSI.

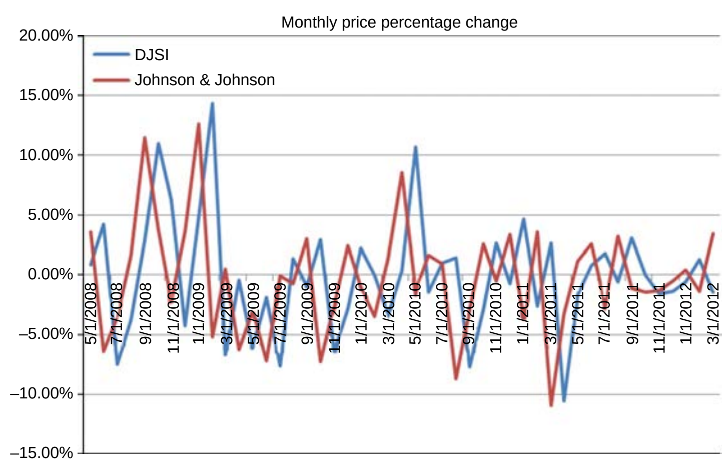

Figure 3.
Johnson & Johnson comparison with Dow Jones Sustainability Index

To supplement the information on the stock prices, a ratio analysis was performed to see if there were any trends in the profitability of Johnson & Johnson. The income statements and balance sheets of the past five years were aggregated to calculate the gross margin, profit margin, return on equity, and return on assets. As shown in Table III, the gross margin ratio has been slightly decreasing from 2007 to 2011. This ratio shows the amount that Johnson & Johnson retains after subtracting the direct costs associated with production of goods. Overall, sales for Johnson & Johnson were increasing, so this means that expenses were increasing disproportionately to revenues. This could be from additional costs from implementing sustainable practices within production. The following trends were observed as follows.

First, the profit margin also decreased from 2010 to 2011, meaning the net income of each year was lower than the previous year when compared to total sales. Return on equity and return on assets were computed for only 2010 and 2011.

Second, return on equity measures the efficiency of an organization, by showing a ratio of how much profit a company generates with the money shareholders have invested. There was a decreasing trend of 23.57 percent down to 16.94 percent in 2010-2011, respectively. This downward trend could be from allocating some of the invested capital in sustainable practices rather than directly in to generate earnings growth.

Third, the return on assets ratio shows an organization's ability to use assets to make a profit. From 2010 to 2011, return on assets decreased, which could be explained by additional measures to increase sustainability, therefore, decreasing net income.

While the ratio analysis shows seemingly negative results, expenditures must be made in order to implement sustainability. The ratio analysis suggests that profitability of sustainable development needs to be monitored over a longer time period to see the recuperation of current expenses into future revenues.

Conclusion

The research presented in this paper suggests that there is a correlation between a company's financial performance and its engagement in CSR. Since CSR is a long-term investment in an organization, it would be beneficial to continue a study into the future to see if there is a stronger correlation between CSR and financial performance in the long term. Limitations to the current research include stakeholders investing in Johnson & Johnson due to other reasons not related to CSR, for example, because it is a historically profitable corporation.

There is recognition that, in general, accounting has a social responsibility construction dimension. Accounting standards can promote sustainable management practices to balance economic growth against social and environmental needs. However, accounting rules have largely geared toward measuring financial resources, assets, liabilities, equity, expenses, and revenue. Social responsibility regarding the

			Year		
	2011	2010	2009	2008	2007
Gross margin (%)	68.69	69.49	70.20	70.96	71.24
Profit margin (%)	14.87	21.65	19.82	20.31	17.31
Return on equity (%)	16.94	23.57	–	–	–
Return on assets (%)	8.51	12.96	–	–	–

Table III. Johnson & Johnson ratio analysis control, custody, and management of company's resources as well as environmental and ecological issues have been left to corporations to voluntarily report them. The emphasis of accounting on efficacy and efficiency has left concerns of social justice like education, ethics, morality, and sustainability to social processes of democracy and reliance on corporate voluntary effort to promote them (Saravanamuthu, 2004).

It can be argued that social and environmental accounting and CSR reporting has broader impact nowadays across business and governmental organizations. The subject has received significant public policy debates and political profile. The culmination of ecological issues in public and policy debates and their subsequent impact at the local, regional, national, and global/international levels have generated interest in accounting research and practice. Social and environmental reporting thus became a company-based voluntary reporting undertaking to publicly report a company's social and environmental performance (Hedberg and von Malmborg, 2003). Long-term profitability is intertwined with environmental conservation, and, therefore, social and environmental activities are voluntarily reported in annual reports as long as social, ethical, and environmental reports are valued by the company's stakeholders and the market (Hussey *et al.*, 2001).

The empirical evidence from Johnson & Johnson suggest that profitability can be sustained for a long time if economic performance is effectively integrated with social and environmental goals into business strategic plans to benefit shareholders, consumers, society, and the community at large. When CSR is incorporated in business strategies of social and environmental performance, it complements economic profitability objectives. In other words, sustainability promotes transparency, adherence, and disclosure that incorporates and promotes social equity, environmental restoration/renewal, and financial performance. In the long run, organizations that have integrated CSR in their strategic planning processes are able to manage risks and take advantage of opportunities of programs that are safer, greener, and economical.

We argue that in the long run, business organizations will pursue economic growth and profitability performance consistent with social, natural, and environmental conservation of resources, and align future technological developments with sustainability programs. When sustainability, in particular CSR become standardized, and adopted by government regulatory organizations, CSR become mandatory requiring corporations to prepare and disclose uniform and comparable social and environmental reports along with economic performance trends as part of their annual financial reports.

Since CSR reporting is still a relatively new practice, future research on the topic could be performed. An additional study could address only the aspects of environmental reporting to see if there is a stronger correlation between environmental reporting and financial performance compared to social reporting and financial performance. More research could be focussed on industry-wide reporting; if certain industries are more successful due to those companies' focus on sustainable practices or due to having more opportunities to adopt sustainable practices. Comparing performance of companies engaging in CSR with non-CSR reporting companies could also be another potential research area, which could see if CSR reporting substantially impacts the financial performance of a company. When CSR reporting could become mandatory in the future; an additional research study could investigate the financial performance of organizations if all publicly-held companies were mandated to report on sustainability.

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Further reading

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