



PRME Principles for Responsible
Management Education
CHAPTER
LATIN AMERICA & CARIBBEAN



Educación en negocios responsables y con impacto en las ODS

PRME LAC 11TH MEETING

 7 y 8
noviembre 2022

 **Centrum PUCP**
Lima - Perú

Educación en negocios responsables y con impacto en las ODS

Park, H. (2022, November 8). *Business Ethics and Financial Performance: Investigating the Mediating effect of Environmental Infractions. A Literature Review*. PRME LAC 11th meeting. CENTRUM, Lima, Perú.

About this study



Mining

Key economic sector. High scrutiny

[Economy driver]



Peru

Yes, it's more than Machu Picchu

[Mining friendly]



Ethics

Effected by people

[Corruption pervasive]



Environment

Air, soil, water, sound

[Coexist harmoniously in time and space]

Introduction

Context

Business ethics, CSR, ESG are hot topics with several stakeholders.

Recent literature findings are inconclusive and show a divergent trend: some are for, others against, and others defy either suggestion

In addition, environment violations are also a hot topic but not studied extensively

Mining, especially in developing countries is a barren land for such studies

Pressure to governments to enforce more, to companies to be sustainable and to academics to find support for or against is ever growing

Overarching theories: stakeholder theory (Freeman, 1984), social norm theory (Blay et al., 2018), moral person theory (French, 1979), moral reasoning theory (Kohlberg, in Belgasem-Hussain and Hussaien, 2020)

Research Purpose

To determine if there is the mediating effect of environmental infractions between business ethics and financial performance. If so, how can it be characterized?

Focus on Peruvian mining companies (Only 41 from 10,674 companies are considered 'large' according to the Peruvian Ministry of Mines classification)

Increase knowledge about the effect of those variables in a specific location (Peru) in a specific sector (mining)

Reduce the divergence of positions on the effect between ethics and financial performance (seminal still to come! 😊)

Introduction

Significance

This study will establish whether businesses acting ethically have superior financial performance

Inconsistent literature needs further research to validate or discard inconclusive knowledge about variables under study

This study will show what the effect of each variable has over the others, so decision making for any given stakeholder is based on facts and not on Public opinion pressure, religion, utilitarianism or social constructs.

Assumptions & Limitations

Peruvian mining executives are very secretive about their information

Information from web pages is deemed to be complete, accurate and timely.

Official data may not be complete, accurate and homogeneous (not comparable among sample selected, despite same wording of infraction).

Infractions data from Peruvian regulators is dynamic: infractions today might not exist tomorrow for the company has remediated the issue, or new audits can add several infractions at once.

Economist

Big tech falls to earth

China's Taiwan-ready generals

NOVEMBER 5TH-11TH 2022

SAY GOODBYE TO 1.5°C

Why climate policy is off target



PRME LAC 11TH MEETING



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LITERATURE REVIEW

State of the Art

- *Impact* of environmental infractions between business ethics and financial performance *inconclusive* and further studies recommended (Table 1).
- Research about CSR, ESG and financial impact abundant, but divergent (Table 2).

Contribution

- To theory, about ethics effects on financial performance
- To regulators: regulations are not enough to enforce environmental sustainability
- To corporations: ethics and FP are not necessarily correlated
- To NGO & hybrids: are you focusing your efforts?

Research Questions

- Do environmental infractions have a mediating effect between business ethics and financial performance?
- Specific questions are:
 - (a) Is there an effect of business ethics over financial performance?
 - (b) Is there an effect of business ethics over environmental infractions?
 - (c) Is there an effect of environmental infractions over financial performance?

Table 1

Suggested Future Studies by Author

Author(s)	Suggested Future Study	Topic
Aouadi and Marsat (2018)	'examine the effect of specific categories of ESG controversies on financial performance' (p.1043)	ESG → CFP (Categories)
Cho et al. (2019)	'more studies are necessary to gain insight into what effects these CSR activities exert on a firm's financial performance' (p.21)	CSR → CFP
Chouabi et al. (2022)	'our sample... only includes companies operating in developed countries. This shortcoming highlights the need for future research [in the Relationship between Environmental Disclosure and Financial Performance]' (p.15)	BE, CFP (developing)
Cunha et al. (2022)	'we suggest future research explore a cross-country setting to explore whether these effects are confirmed in other similar contexts' (p.19)	Gender → CFP
Derin (2017)	'Researchers interested in this subject can research how the understanding of business ethics is able to shape financial performance' (p.218)	BE → CFP
Ding et al. (2022)	'environmental administrative penalty not only affects the cash flow but also affects the capital cost... which necessitates further investigation.' (p. 36682)	EI → CFP
Fiandrino et al. (2019)	'more clarity on the relationship between CFP and CSR is still needed (Revelli and Viviani, 2015)' (p. 172)	CSR → CFP
Huang (2021)	'identify and understand the <i>motivators</i> for ESG activity, and the processes that lead to CFP outcomes' [emphasis added]. (p. 355)	ESG → CFP
Islam and Alharti (2020)	'top management's ethical commitment, ethical climates, and efforts for sustainable procurement practices of other public and private sector' (p. 18)	BE → CFP
Liu et al. (2021)	'This study can be expanded in the future by examining the effects of ESG for different regulatory frameworks' (online version)	CSR → EI
Ma et al. (2020)	'the scope of the data collection could be expanded to further test the hypotheses put forward in this paper' (p. 19)	BE → CFP
Mili et al. (2019)	'In future research, it would be interesting to examine the impact of each component on the value of the company' (p. 984)	BE → Company Value
Nguyen et al. (2020)	'replicate or expand this study in other countries ... It is strongly recommended that where possible, objective data be obtained to corroborate or validate survey results.' (p. 329)	Mindfulness → BE, CFP (secondary data)
Palacios-Marsano et al. (2019)	'Differences in legal, institutional, accounting system, and CSR measurement could lead to differences in the relationship between CSR and earnings management. This study leaves these important questions for future researchers' (p. 934)	CSR → CFP
Porcena et al. (2020)	'future investigation would also offer researchers the opportunity to weigh in on the debate of whether social initiatives contribute to financial performance' (p. 2637)	BE (social initiative) → CFP
Rodriguez Fernández et al. (2019)	'for future works, it would be convenient to analyze the small and medium enterprises in local and regional environments.' (p. 13)	ESG → CFP (small & medium)
Sahramäki and Kankaanranta (2021)	'Further research should be done to investigate the content of this political void and its implications for the prevention of environmental harm and crime' (p. 17)	EI → CFP
Sial et al. (2018)	'Future studies are required to investigate other possible CSR variables that could impact firm performance in various contexts, including in developing country contexts' (p. 13)	CSR → CFP (developing)
Wang et al. (2020)	'consider the causal effect between environmental information disclosure and the financial performance of the company' (p. 12)	EI (Disclosure) → CFP

Note. Adapted from Park, H. (2022, November 8). *Business Ethics and Financial Performance: Investigating the Mediating effect of Environmental Infractions. A Literature Review*. PRME LAC 11th meeting. CENTRUM, Lima, Perú.

Table 2

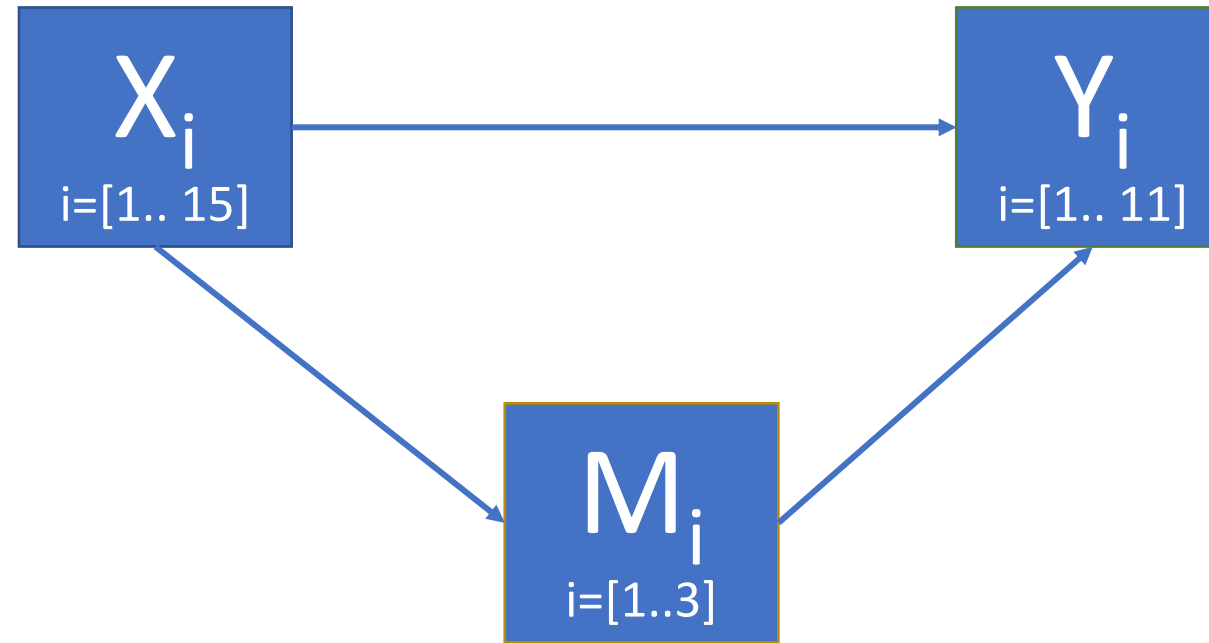
Relations in Literature Review (Extract)

Author(s)	Key finding	Positive or Negative Relation
Abdi et al. (2020)	Environmental, sustainability and governance improve Firm value and financial performance	Positive
Badia et al. (2019)	Environmental, sustainability and governance and government bonds positive, but not significant	Positive, but not significant
Bristy et al. (2020)	Gender difference: more female board members give lower ROI in corporate social responsibility	Negative
Buallay (2019)	Negative environmental, sustainability and governance and operational & financial performance	Negative
Cho et al. (2019)	Corporate social responsibility partial positive correlation with profitability and firm value	Positive (partial)
Chouaibi et al. (2021)	Mediating effect of green mediation in the positive relation between environmental, sustainability and governance-financial performance	Positive
Deng & Cheng (2019)	Positive environmental, sustainability and governance-financial performance (stock value as proxy)	Positive
Duque-Grisales & Aguilera-Caracuel (2021)	Negative environmental, sustainability and governance-financial performance (even separating each variable of environmental, sustainability and governance)	Negative
Fiandrino et al. (2019)	Conflicting understanding on the nexus between corporate governance, financial performance, corporate social responsibility: corporate social responsibility influences corporate governance and financial performance	Positive (partial)
Giese et al. (2019)	Environmental, sustainability and governance and valuation and financial performance related. Lower cost of capital, higher valuation and profitability, and lower exposure to tail risk	Positive
Huang (2021)	Positive relation environmental, sustainability and governance-financial performance: Positive statistically but economically modest environmental, sustainability and governance-financial performance link	Positive (modest)
Ionescu et al. (2019)	Positive environmental, sustainability and governance and company value. Focus on travel & tourism companies	Positive
Khan (2019)	Nonfinancial performance measures of environmental, sustainability and governance are potentially leading indicators of companies' financial performance	Positive (potentially)
Liu et al. (2021)	Corporate social responsibility insignificant impact to financial performance (using ROA, ROE, nominal interest margin profit)	Insignificant
Nekhili et al. (2021)	Mixed effects to financial performance depending on group (represent workers or company). Social impact of environmental, sustainability and governance-financial performance	Mixed (depend on who they represent)
Ouni et al. (2020)	Gender diversity has effect on financial performance. Mediating variable: environmental, sustainability and governance	Positive
Palacios-Manzano et al. (2019)	Corporate social responsibility negatively impacts earnings. Socially responsible firms foster long term over short term	Negative
Rodriguez-Fernandez et al. (2019)	Positive environmental, sustainability and governance-financial performance (in hospitality industry, listed companies)	Positive
Tunio et al. (2021)	Positive relation between environmental, sustainability and governance and financial performance	Positive
Xie et al. (2019)	'Most of the environmental, sustainability and governance activities reveal a nonnegative relationship with financial performance'	Positive

Note. Adapted from Park, H. (2022, November 8). *Business Ethics and Financial Performance: Investigating the Mediating effect of Environmental Infractions. A Literature Review*. PRME LAC 11th meeting. CENTRUM, Lima, Perú.

Literature Review – Variables

- X₁ : Understanding of what business ethics is
- X₂ : Governance controversies
- X₃ : Perception of corporate reputation
- X₄ : Covalence ethical quote
- X₅ : Manipulation of companies' revenues
- X₆ : Adoption of ethical business models
- X₇ : Application of Shariah
- X₈ : Gender diversity
- X₉ : Number of green initiatives
- X₁₀ : Ethics related training to executives
- X₁₁ : Quality of a company's Code of Ethics
- X₁₂ : Excessive variable compensation
- X₁₃ : Number of social initiatives
- X₁₄ : Inclusion of stakeholders
- X₁₅ : Awareness of code of ethics



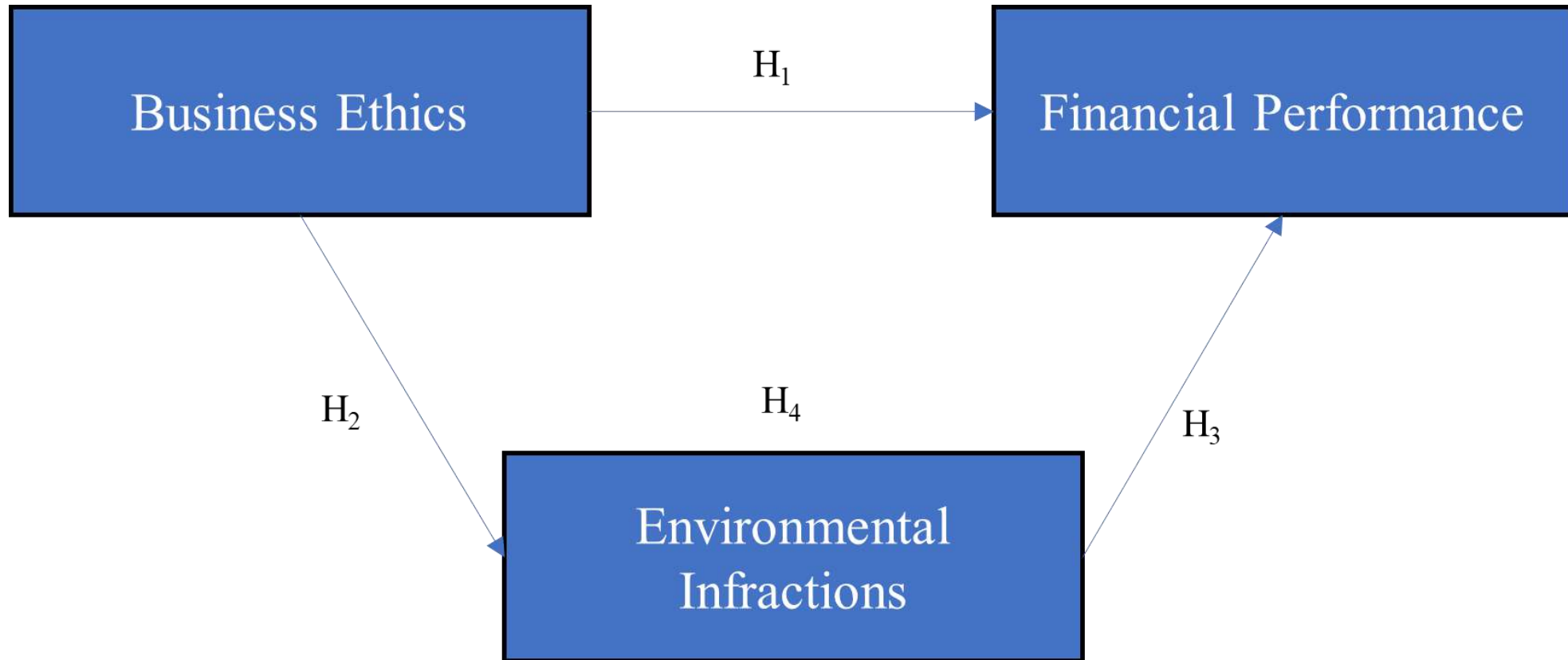
- M₁ : Nature of infraction
- M₂ : Fine amount
- M₃ : Place (Region in Peru)

- Y₁ : Earning Multiples
- Y₂ : ROE
- Y₃ : ROA
- Y₄ : Interest Margin Profit
- Y₅ : Firm Value NPV
- Y₆ : Firm Value Stock
- Y₇ : Firm Value Profit
- Y₈ : Firm Value Revenue
- Y₉ : Firm Value CEO ranking
- Y₁₀ : Firm Value perception
- Y₁₁ : Profitability EBIDTA

X: Business Ethics M: Environmental Infractions Y: Financial Performance

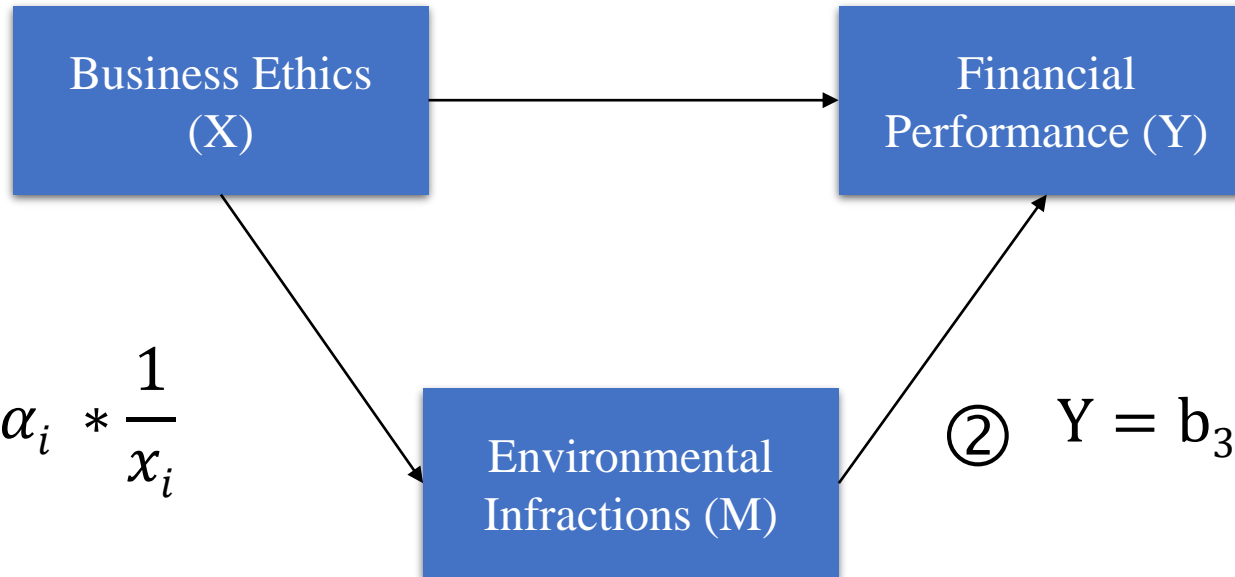
Control variables:
 • Matriz (Categ)
 • Size (ln(S/))

Model Hypotheses



Model Equations

$$\textcircled{3} \quad Y = b_2 + \sum_{i=1}^{15} \gamma_i x_i$$



$$\textcircled{1} \quad M = b_1 + \sum_{i=1}^{15} \alpha_i * \frac{1}{x_i}$$

$$\textcircled{2} \quad Y = b_3 + \sum_{i=1}^3 \beta_i * \frac{1}{M_i}$$



Back

Save

Calculate

Select

Latent variable

Connect

Quadratic effect

Moderating effect

Gaussian copula

Comment

Delete

Tools

BE_EI_FP2

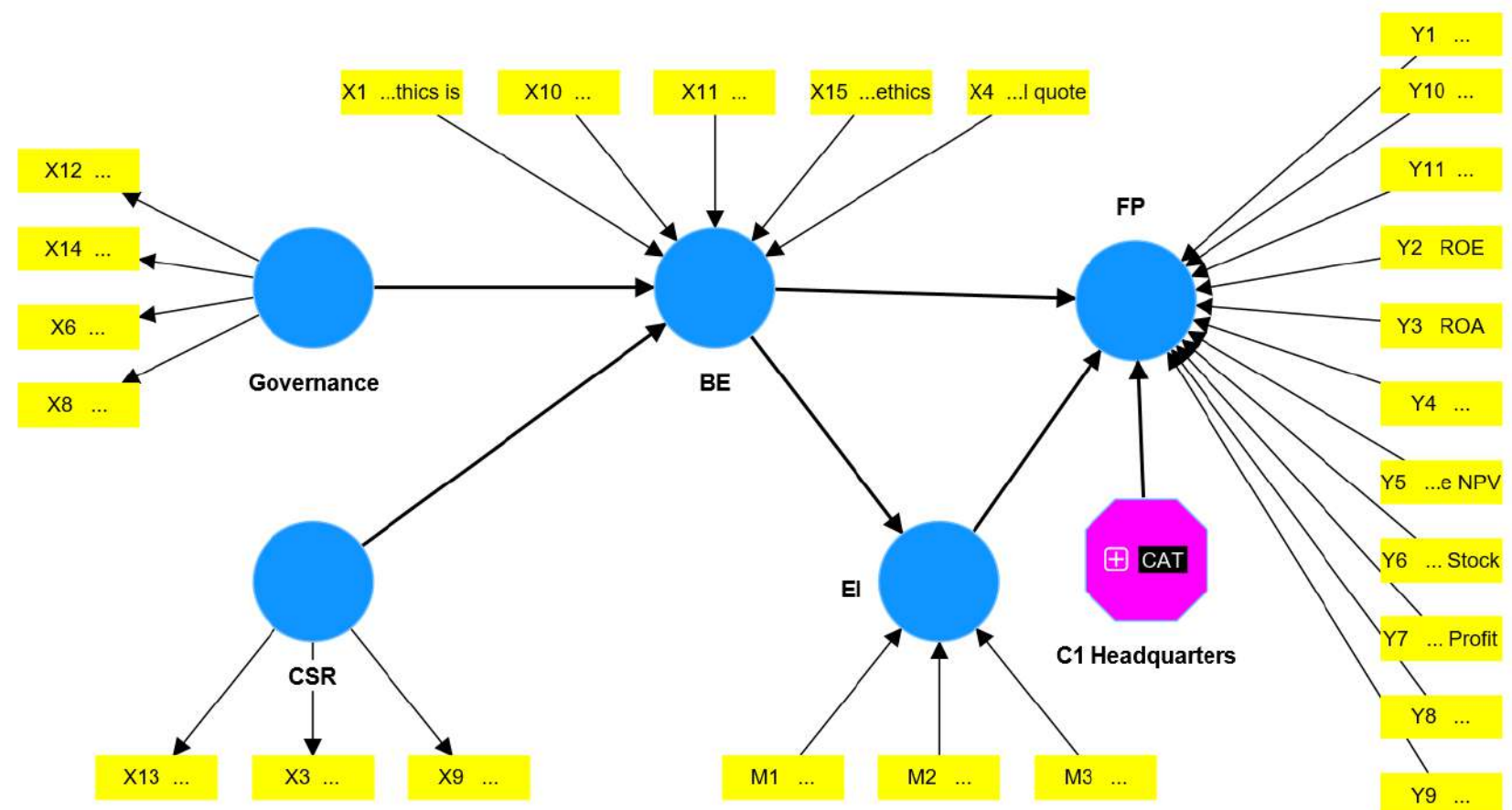
Test_data... Select dataset

- 0 C2 Firmsize
- 1 C1 Headquarters
- 2 X1 Understanding of what b
- 3 X2 Governance controversi
- 4 X3 Perception of corporate
- 5 X4 Covalence ethical quote
- 6 X5 Manipulation of compani
- 7 X6 Adoption of ethical busin
- 8 X7 Application of Shariah
- 9 X8 Gender diversity
- 10 X9 Number of green initiati
- 11 X10 Ethics related training t
- 12 X11 Quality of a company?s
- 13 X12 Excessive variable com
- 14 X13 Number of social initiat
- 15 X14 Inclusion of stakeholde
- 16 X15 Awareness of code of e
- 17 M1 Nature of infraction (Dur
- 18 M2 Fine amount
- 19 M3 Place Region in Peru

MIN 1.00 MAX 10.00
 MEAN 5.45 MEDIAN 5.00
 STDEV 2.87 MISSING 0

Visible ... Sorted Index a...

- 1) Double-click in empty space to create new latent variables.
- 2) With ALT pressed, draw a connection between two latent variables or a latent variable and another connection (for a moderating effect).
- 3) With ALT+SHIFT pressed, drag latent variables to align indicators.



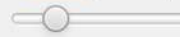
Coloring



Defaults



Zoom (100%)



Summary



- Current literature has not explored, less explained whether environmental infractions has a mediating effect between business ethics and financial performance or not.
- This study fills that gap and provides considerations and parameters for key stakeholders:
 - (a) To regulators to improve enforcement on environmental care,
 - (b) To companies interested to understand the impact of complying and remediating not only from the monetary perspective,
 - (c) To organizations looking to focus their environmental improvement strategies, and
 - (d) to intellectuals who wish to expand the analysis into other sectors or locations where industries are the source *and* solution to environmental issues.

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Gracias



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