> Thursday, February 18th, 2021
14:00 - 15:30

ICOR RESEARCH SEMINAR

IÉSEG SCHOOL OF MANAGEMENT

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ABSTRACT

SYMBOLIC SOCIAL SURROGATION? INVESTIGATING THE RELATIONSHIP ON UNGC MEMBERSHIP AND ESG PERFORMANCE

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The aim of this paper is to investigate the relationship between the decision to sign up to the United Nations Global Compact (UNGC) and the firm environmental, social and governance (ESG) performance. Extant literature does not provide conclusive data proving an relationship ESG performance for firms participating in the UNGC, an initiative often criticized for its absence of enforcing mechanisms. At the same time, ESG performance measurement suffers from the lack of internationally agreed performance metrics. To overcome these issues, we have created a unique dataset for the 2003-2020 timeframe merging data between the list of UNGC signatories (over 23,000 organizations) and the ESG performance notes made by Vigeo-Eiris, the largest extra financial rating agency in Europe including data for over 8,000 enterprises.

From the analysis on 8,545 firms including, 58 activity sectors, 66 countries and over 17 years, we can observe two main results. **First, UNGC has a significant relationship with firms that have a better ESG performance.** This difference is nearly 30% and the tendency shows this difference has been increasing over the time.

Second, looking more carefully at the effects of the UNGC immediately after the signature, we can observe, paradoxically, that **average ESG performance decreases after the 1st year of signature.** Our data show that there's a temporary decrease in firm ESG Performance after the first full year of the signature before increasing from the 2nd year on after the signature.

We argue that this unexpected, temporary negative effect on firm ESG performance can be seen as a manifestation of what we propose to call ***symbolic social surrogation***: *the tendency to mentally replace ESG performance with well-established symbols for corporate social responsibility (CSR)*–e.g. the signature of the UNGC, usually a publicly announced and well trumpeted event in all communication around ESG performance. We add 'symbolic' to characterize this surrogation effect, since it is not really a pure ***surrogation***, as when managers tend to *replace* one specific objective with another one, for example 'strategy' with 'metrics', with harmful effects on the overall firm performance (Harris & Taylor 2019; Ordoñez et al. 2009). At the same time, it is not a pure manifestation of ***symbolic conformity*** either (Jamali 2020, Rodrigue et al. 2013), where the decoupling between corporate social responsibility commitments and real practices appears to be the result of a strategic choice, since we are observing only a temporary decrease in firm ESG performance (from year 1 to tear 2 after the UNGC signature), within an overall positive (non-decoupled) trajectory. Therefore, we posit that this symbolic surrogation might be an *unintentional* effect associated with a mental surrogation mechanism rather than a strategic response. A sort of temporary unwanted effect linked with the adoption of a 'heavy' CSR symbol, similar to the 'paradox of CSR standards' theorized by de Colle & Sarasvathy (2013).

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