

Corporate Social Responsibility: Formal vs. Informal Firms

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Abstract

In this paper, using both cross-country data including 73 countries, as well as a novel data from a firm level survey covering 1000 firms in Turkey, I investigate the relationship between informality and corporate social responsibility. (CSR) Using the firm-level data, I ask whether corporate social responsibility scores (CSR) and its relationship with firm's expected performance and profitability are different for firms mainly operating in the formal and informal sector. Cross-country data reveals a significant negative correlation between CSR and informal sector size. On the other hand, using the firm-level data, I find that firms that tend to engage in informal economic activities have significantly lower CSR scores. Moreover, CSR scores and firms' expected performance are generally positively correlated and this correlation is much less (and even not significantly different from zero in some cases) for informal firms. I also find some evidence that the main reason behind these results might be that is that firms mainly operating in the informal sector are spending significantly less to R&D and advertising as the relationship between these variables and the firm's performance and profitability is less pronounced for these firms.

Keywords: corporate social responsibility; informal sector; shadow economy; cross-sectional data

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