Durak Uşar, Damla; Özyegin University
damla.usar@ozu.edu.tr
Authors: Damla Durak Uşar, PhD., Ozyegin University Sustainability Platform
Cekmekoy, Istanbul, Turkey, 34994, Phone : +90 (216) 564-9897,
E-mail: damla.usar@ozyegin.edu.tr
Mehmet Ali Soytaş, Assistant Professor of Economics, Ozyegin University, Faculty of Bu

Title: Estimation of the Static Corporate Sustainability Interactions

The empirical literature considers firm specific aspects affecting corporate sustainability decisions but generally omits the influence of the competition. We advocate that sustainability actions of a company impact its marketplace and vice versa. Therefore, the sustainability return of the single firm is a function of the other firms' sustainability decisions. We approach sustainability decisions as strategic decisions and evaluate the effect of competition and spillover in a static market entry game. We decompose competition into negative effect and positive effect (spillover) provide better understanding how strategic interactions influence the sustainability decisions of companies. On the one hand as more companies engage in sustainability activities, the competitive advantage provided by the sustainability initiative decreases. On the other hand, as more companies engage in sustainability activities, companies may imitate the competitors' sustainability actions and benefit from the spillovers without bearing the full cost of the investments. We estimate the parameters of the discrete choice model using the social performance ratings from MSCI KLD 400 Social Index as proxy for sustainability decisions and financial information from Wharton Research Data Services' COMPUSTAT dataset. When strategic interaction is not accounted for we find that the increasing number of competitors increases the likelihood of sustainability investments, seemingly shows the spillover effect dominates the competition. When we apply the two – stage approach which incorporates competitive interaction, we provide empirical evidence that the effect of competition on the likelihood of entry into the sustainability market dominates the effect of spillover. Furthermore, this finding is more profound for the first–time entrants. This result has substantial regulatory policy implications. Public policy makers should give incentives to new entrants to compensate the negative influence of competition on the total sustainability outcome of the market. We find that strategic motives, typically ignored in the empirical literature, appear to be an important factor in sustainability related decisions. Companies' sustainability decisions are not only based on the cost benefit analysis but also on the sustainability decisions of competitor companies. Firms might decide to invest in sustainability to gain competitive advantage in the long–run regardless the financial return in the short–term.