

## Corporate Social Responsibility and Financial Performance: A Literature Review

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**Abstract:** The area of corporate social responsibility (CSR) has grown exponentially in the recent time. One of the crucial questions in the debate about the worthwhileness of CSR for the firm in terms of its effects on firm's financial performance (FP) has been widely discussed and empirically researched. Several studies have been undertaken by various researchers to examine the relationship between CSR and FP. It has been observed that the results of these studies vary widely. This may be due to different methods and techniques that have been used to study the relationship between CSR and FP. This paper is an attempt to aggregate the previous empirical research articles/papers elucidating the effect of CSR on firm's FP. The paper mainly focuses on the types of variables (i.e. independent, dependent and control) that have been used to study the relationship between CSR and FP. The present study reveals that in majority of the research articles/papers (66%) there is a positive effect of corporate social responsibility on the firm's financial performance while only 05% of the research articles/papers studied show that there is no significant relationship between CSR and FP. Whereas, 10 % of the research articles/papers studied shows mixed results about the effect of CSR on FP and remaining 18% of research articles/papers studied shows that CSR has a negative impact on the FP of a firm.

**Key Words:** Corporate Social Responsibility, Financial Performance, Literature Review

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### I. CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

Many authors made an attempt to define corporate social responsibility. Davis defined it as the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks. **Error! Reference source not found.** In other words, CSR is 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 (The World Business Council for Sustainable Development, 1999). According to Business for Social Responsibility (BSR), corporate social responsibility is defined as achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment. Whereas, McWilliams and Siegel describe CSR as actions that appear to further some social good, beyond the interest of the firm and that which is required by law [1]. The society expects that the businesses should act in a responsible manner. Businesses should take their decisions in ethical manner and to ensure that these decisions do not have negative effects on the society. Therefore, businesses are expected to provide some support to the society [2].

The research shows that many firms have responded to social welfare concerns by devoting more resources to CSR than they were mandatorily required to do. Businesses are considering CSR as the source of competitive advantage. It can be a proactive business strategy or marketing strategy which will result in competitive advantage. However, at the same time businesses are concerned about the benefits that are offered by the CSR activities [3]. The performance of the organizations is affected by their strategies and operations in market environment. Thus, it is necessary for manager to consider or not to consider the CSR activities in making decisions. **Error! Reference source not found.** Further, CSR has been given greater importance in many countries and companies. However, enhancing CSR activities will bring better financial performance for the business is still debatable. Review of the past literature revealed that relationship between CSR and FP is inconclusive. **Error! Reference source not found.** This paper is an attempt to present the literature review of relevant empirical research on relationship between CSR and FP. The next section of the paper discusses about the methodology that has been used for undertaking the review and then there is the taxonomy of the 39 empirically tested research covering variables under study, methodology of defining and selecting the CSR and FP variables and the outcome in term of relationship between CSR and FP. At the end major findings and implications of review have been discussed.

## II. METHODOLOGY

This study uses the techniques commonly found in literature studies. The material for the literature review is the existing research in specific research area. Extensive exploration has been done to search relevant research articles/papers related to relationship between CSR and FP. To search research articles/papers, online databases like EBSCO, J-Gate, SSRN, Shodhganga, Researchgate, Google Scholar and Google book was explored. The search was based on the key terms like, Corporate Social Responsibility and Financial Performance, CSR and Business Performance, Ethical Behavior and FP, CSR and Corporate Social Performance and Corporate Financial Performance etc. Based on the searched articles/papers the taxonomy was prepared that covers details of author/s and year of research, sample size, time duration for data collection, CSR variables and its measurement, Financial Performance variables and its measurement, Control Variables and its measurement (if any), method of analysis and relationship between CSR and FP.

## III. TAXONOMY OF LITERATURE REVIEW ON CSR AND ITS EFFECT ON FP

No.	Author (Year)	Sample size	Time Duration	CSR Variables	Financial Performance Variables	Control Variables	Method of data analysis	Relationship
1	Tsoutsora, Margarita (2004)[2]	422	1996 - 2000	DSI 400 ratings	ROA, ROE, ROS	Risk, company size and industry	Regression	Positive
2	Lin et al. (2009)[4]	33	2002 - 2004	Donation ratio as a CSR proxy variable	ROA	-	Regression	Positive
3	Theofanis Karagiorgos (2010)[1]	39	2007 - 2009	Corporate Social performance was evaluated by 16 indicators on policies and systems on social issues	Stock Return	Risk, company size and industry	Regression	Positive
4	Mwangiet al. (2013)[7]	-	2007 to 2011	Content analysis	ROA	Manufacturing efficiency and capital intensity	Multiple Regression model	Positive
5	Seoki Lee and Sun-Young Park (2010)[8]	46	-	KLD rating	ROA, ROE, ROS, AMV (average market value) and EMV (excess market value)	company size, capital structure, and year-dummy variables	Multiple Regression model	Positive
6	Uadiale and Fagbemi (2012)[5]	40	2007	The Voluntary Disclosure Index Constructed, content analysis	ROA, ROE	-	Regression	Positive
7	Caroline Flammer (2013)[9]	102	1997 to 2010	The identification of CSR-related proposals, content analysis	ROA, net profit margin	-	Regression	Positive
8	Abigail McWilliams and Donald Siegel (2000)[10]	524	1991-1996	KLD ratings	Measures of accounting profits	R&D, Advertisement, Size	Regression	Positive
9	Iqbal et al. (2012)[11]	156	2010 and 2011	corporate social performance index	ROE, ROA	-	Regression	No effect
10	Yang et al. (2010)[6]	150	2005 - 2007	the five indicators of the AReSE method of France	ROA, ROE, ROS	-	Regression	Mixed results
11	Torugsaei et al. (2012)[12]	171	-	Measured proactive	the respondents' perceptions on	Firms size and duration of	SEM	Positive

				CSR in terms of the perceptions of managers	two financial performance items – return on assets and net profits to sales	experience in managing CSR, global financial crisis		
12	Seo et al. (2010)[13]	1122	2002-2008	Korea Economic Justice Institute (KEJI) index and equal-weighted CSR index and a stakeholder-weighted CSR index	ROE, ROA Tobin's Q	-	Regression	Positive
13	Hasan Fauzi (2009)[14]	120	2004-2006	seven item developed initially by Michael Jantzi Research Associate	ROE, ROA	Size, Financial Leverage, Industry Type	multiple regression model	No effect
14	Bert Scholtens (2007)[15]	289	1991 - 2004	KLD rating	Total stock returns, financial risk	-	lagged OLS and Granger causation	Mixed results
15	Rettab et al. (2008)[16]	280	-	CSR was measured using a 26-item scale for	Rating scale was used to measure CFP	Size of the firm, sector of activity and age of the firm	Regression	Positive
				six CSR practices				
16	Aras et al. (2009)[17]	40	2005 - 2007	content analysis of social and environmental disclosures	ROE, ROA, ROS	Size of the firm, Risk, R&D	Regression	No effect
17	Stephen Brammer (2008)[18]	537	1990-1999	charitable donations	Market performance	Size of the firm	Regression	Positive
18	Jennifer J. Griffin and John F. Mahon (1997)[19]	7	1994	KLD rating and fortune reputation survey	ROE, ROA, Total assets, asset age, 5 years return on sales	-	Rank	Mix results
19	Mcguire et al. (1988)[20]	131	1983- 1985	Fortune magazine's annual survey of corporate reputations	risk-adjusted return, or alpha, and total return and return on assets (ROA), total assets, sales growth, asset growth, and operating income growth	-	Regression	Positive
20	Adewale and Rahmon (2014)[21]	-	1990-2010	Corporate Social Responsibility Cost	Profit After Tax (PAT)	-	Regression	Positive
21	Zhou et al. (2015)[22]	1353	2006 - 2012	Corporate philanthropy	ROA, Tobin's Q is the ratio of	ownership type, the share of the	Regression	Positive

				reporting	market value divided by the total asset in the end of the financial period	government, the asset/ liability rate, the company size, industry concentration level, industry attributes		
22	Odemilim et al.[23]	20	2002 - 2006	Global Reporting Initiative (GRI) guidelines	Earnings per share (EPS)	-	Regression	Weak but Positive
23	Chen and Wang (2011)[24]	-	2007 and 2008	CSR	CFP	-	-	Positive and vice versa
24	Nelling, Webb (2009)[25]	-	-	CSR	Financial Performance	-	-	No effect
25	Cochran, Wood (1984)[26]	39 and 36	1970- 1972 and 1975 - 1979	Reputation index and content analysis	Operating earnings to assets, operating earnings to sales, excess market valuation	Average age of corporate assets	Regression	Weak but positive
26	Ahmed et al. (2012)[27]	17	Questionnaire	Corporate Social Performance (CSP) Index	ROA, EPS and P/E ratio	-	t-tests	Positive compare to non CSR banks
27	Cavaco, Crifo (2014)[28]	1094 observations (around 300 firms per year) from 15 countries over the 2002–2007 period		CSR dimensions	ROA and Tobin's Q	-	Regression	Positive
				(human resources, environment, business behavior)				
28	Michelon et al .(2013)[29]	188	2005 - 2007	KLD data	EBITDA, capital expenditure, and intangibles; companies' market value	Firm size and industry type	Regression	Positive
29	Maria-Gaia Soana (2011) [30]	21	2005	Content Analysis	Return on Average Equity (ROAE), the Return on Average Assets (ROAA) and the Cost to Income Ratio	-	correlations, regressions, t-tests, ANOVA and event studies	No effect
30	Joseph And Okafor (2016) [31]	-	2010-2014	Corporate donations and charitable	Earnings Per Share (EPS), Return On Capital Employed (ROCE) and Dividend Per Share (DPS)	-	Regression	Positive
31	Fiori et al. (2016)[32]	-	2004- 2006	CSR reports and CSR parameters (employee,	firms stock prices	-	Regression	No effect

				environment, community), debt/equity (D/E) ratio, ROE ratio, Beta levered (as a proxy of firms' risk)				
32	Kanwal et al. (2013)[33]	15	2008 - 2012	CSR cost	Net profit, total assets	-	Correlation	Positive
33	Inoue, Seoki Lee (2010)[34]	367	1991 - 2007	KLD index	ROA and Tobin's q	Firm size, Leverage, Year	Regression	Mixed results
34	Mishra, Suar (2010)[35]	150 questionnaire	2003-2006	CSR questionnaire	ROA	Listing in stock exchanges, type of ownership, and firm size	Regression	Positive
35	Tang et al. (2012)[36]	130	1995 - 2007	KLD index	ROA	-	Regression	Positive
36	Saleh et al. (2011)[37]	200	1999 - 2005	Company's Annual Reports	ROA, ROS, ROE	-	Regression	Positive
37	Saeidi et al.(2014)[38]	205	-	KLD index	Return on Equity (ROE), Return on Sales (ROS) Return	firm's size, age and revenue	SEM	Positive
					on Assets (ROA), Return on Investment (ROI), and net profit margin			
38	Crisostomo et al. (2011)[39]	296	2001 - 2006	Brazilian Institute of Social and Economic Analysis	return on assets (ROA) and the return on equity (ROE)	Size, sector, Company's leverage and risk	Regression	Negative

#### IV. DISCUSSION

The present study shows that in the majority of research articles/papers there is a positive effect of corporate social responsibility on firm's financial performance (66%) while only 05% shows there is no significant relationship between CSR and FP. Whereas, 10 % of research articles/papers shows mixed results about the effect of CSR on FP and remaining 18% research articles/papers shows that there is negative relationship. The study that shows no significant relationship, actually it is positive relationship but very small and from the statistical view point it is not significant. Farther, if we talk about the mixed results, it was two way relationship between CSR and FP where both variables were influencing each other. Apart from this, these articles/papers also studied the effect of various CSR dimensions on FP. In some of these studies, it is found that some of the CSR dimensions have positive effect of FP whereas some of them are not having positive effect. Additionally, the articles/papers that show the negative relationship between CSR and FP is very thin. Based on the above analysis, it is found that majority of studies undertaken used CSR index or rating to measure corporate social responsibility by using content analysis. Whereas, to measure the financial performance of the firm various accounting and market indicators like ROE (Return OnEquity), ROA (Return On Assets), ROS (Return On Sales), Net profit, Tobin's q, stock price, EPS (Earning Per Share) and P/E ratio(Price Earnings Ratio) were used. Many researchers also considered the company size, industry type, age of company, and risk level as a control variables to study the effect of CSR on FP.

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