

Literature review: the impact of corporate social responsibility on firm performance

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Abstract: In modern world, there much concerns on corporate social responsibility (CSR) toward sustainable development. The number of researches on CSR in recent years has been increasing and focusing on the conceptual framework and analysis CSR's effects in business. According to various researches, CSR has impact on business operation and become one of the most important objectives of enterprises. This issue attracts many researchers as well as managers and practitioners conducting study on finding the relationship between corporate social performance and firm performance. However, the answer to question "Is there the strong relationship for CSR and firm performance?" has been controversial. This obvious inner conflict in CSR outcomes welcomes a literature study that can clear up the open deliberation and take into consideration the reaching of determinations. The paper aims to present the definition of CSR based on stakeholder theory conceptual framework. CSR measurement is also indicated to clarify the analysis content as well as level of CSR. Furthermore, this research debates with literature review of analysing the relationship between CSR and firm performance. In these studies, CSR was independent variable; whereas, financial performance was dependent variable. Majority of researches showed positive relationship, while others exposed no relationship, or negative one.

1 Introduction

The increasing controversy on Corporate Social Responsibility (CSR) which is a matter concerned the modern economics phenomena has been pressurizing on enterprises in legal, social, moral, and financial aspects [1]. The government put more restrictions relating to social obligations by policies and laws [2]. Customer demands on sustainable and organic products are growing as a result of explicit

markets [3]. Before making decision, investors tend to consider corporate financial performance as well as their social responsibility [4]. These changes lead companies' concentration to broader orientation toward not only shareholders' wealth but also other stakeholder's requirement. Companies, thus, take into consideration corporate social performance [5].

The number of scholars related to CSR has been rising. According to Wang, one of top themes in CSR is conceptual review and link between corporate social performance and corporate financial performance [6]. However, the empirical results of these researchers are not homogeneous so it should pay attention to what can we use the debate and comprehension of these studies in deliberation the CSR concepts. This paper focuses on finding the answer to the question: Does corporate social performance impact on firm performance?

This study will present the conceptual framework for CSR consisting of the definition and measurement. The results of previous research on the link between CSR and firm performance are indicated in the next part. Finally, recommendation for future research will be discussed in the last part.

2 Corporate social responsibility

2.1 Conceptualization

A research on CSR has long time history. In the early of 1970s, Friedman's statement under shareholder theory indicated that managers concentrate on increasing shareholders' wealth and separates corporate and managerial responsibility. They pay much effort in conducting the business operation to get as much profit as possible [7].

By contrast, later research support the perspective of CSR concept in different perspective and theories as summarized in Table 1.

Viewpoint	Referential Author/ Organization	Domain
CSR pyramidal model	Carroll A. B. (1979)	Economic/ Legal/ Ethical/ Philanthropic
Sustainable development perspectives	UN World Commission on Environment and Development (1987)	Economic/ Environmental/ Social
Stakeholder management theory	Freeman (1984)	Shareholders/ Customers/ Employees/ Society/ Others

Table 1
The summary of CSR concept

First, the multidimensional approach proposed by Carroll has been widely supported in CSR concept. He defines CSR as all the “economic, legal, ethical and discretionary expectations that society put on organizations at a given point in time” [8].

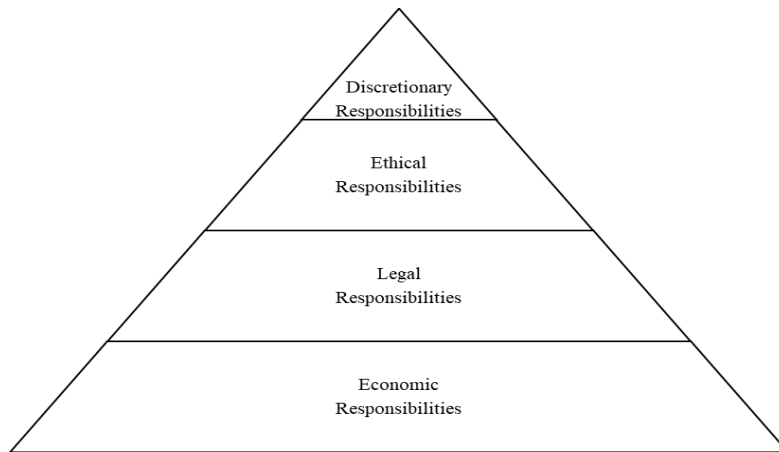


Figure 1
Categories proposed by Carroll (1979)

The expectations are stimulated in a dynamic model as seen in Figure 1. Responsibility in economic domain is required for the business that they have to ensure liabilities such as maximizing shareholders’ profit, increase competitive position or remaining firm performance at a high level. The legal liability dimension is notified as an obligation of obeying the law. The ethical category includes all legal enterprises’ activities that are expected by society. Philanthropic domain exposes series of charitable actions relating to environment reservation, voluntary donation or sponsorship to cultural activities [8].

A second the sustainable development is another method to understand CSR perspective in other categories. CSR is conceptualized as following dynamic and incorporated philosophy in which companies consider to balance economic benefit and environmental as well as social performance [9].

Finally, the third most common CSR perspective is proposed by stakeholder theory. Freeman argued in stakeholder theory that enterprises should concern on social responsibility to attain business legitimacy. The success of a business depends on the capability of managing its relationship with both internal and external key groups. It means that managers have not only paid attention to shareholders but also other stakeholders such as customers, employees, and communities [10].

2.2 Corporate social performance (CSP)

Corporate social responsibility is related to multidimensional inside and outside subjects, thus, it is impossible to measure. CSP is a way to transfer CSR into measurable variables. CSP is measured in the multidimension structure concerning social actions, behavior or processes, especially in the analysis of the effects of CSR on firm performance. According to Beurden, the measurement can be classified in three main methods as follows [2]:

CSP measured by Social Content Disclosure

The social activities which companies conducted are reflected in their announcement. CSP can be evaluated by content analysis on enterprises report disclosed to the public.

CSP measured by Social Actions

Social actions such as pollution control, voluntary or social program are considered as observable social outcomes. Questionnaires address to leaders or managers to assess social results.

CSP measured by Social Reputation Rating

Corporate reputation ratings carried out by outside organizations are assumed that good show of the corporate social performance. Some famous rating can be mentioned such as KLD, MSCI, ESG, Fortune, STATS, Moskowitz, and Business Ethics.

3 Firm performance in the relationship with corporate social performance

In the research on the link between corporate social performance and corporate financial performance (CFP), economic results are measured in different ways which are able to influence the findings. According to Beurden, firm performance is mentioned as two classifications consisting of accounting-based and market-based measurement [2].

Accounting-based measurement

Accounting-based measures comprise profitability, assets and equity utilization which reflects the financial internal efficiency of the organization. They are influenced by corporate social responsibility, especially, in the dimension such as customers, suppliers, or investors.

Market-based measurement

Market-based measures supply information for market participants to evaluate stock price and then market value of enterprises, as a consequence, predict the stock returns in the future. This is also predicted to be affected by corporate social performance. Stock performance, market return, market value to book value, or price per share are some market-based proxies.

Beurden debated that market-based measurement is better than accounting-based one to analyse the link between CSP and CFP as it isolated CSR activities. In addition, CFP based on market value is closer to shareholders' wealth [2]. On the other hand, Wu argued that market-based CFP resulted in the smaller association with CSP than accounting-based measurement [11]. He, thus, prefer to CFP measured by accounting proxies to figure out the relationship between CSP and CFP.

4 Review on the impact of CSP on CFP

The controversy over CSR, as mentioned in the introduction, has been rising the crucial question that "Is it worth being socially responsible in business operation?". One of the main concerns of the research is the direction of the relationship between social responsibility and firm performance, which is classified in the positive, negative and neutral relationship [12].

4.1 CSP has a positive effect on CFP

Regarding researchers who found the positive relationship between CSR and firm performance, CSR is a range of social actions to reach the corporates' target and wealth [13]. Empirical results proved that enhancing CSP will improve company economic benefits [14] as well as non-financial performance such as leading to a competitive advantage [15], boosting company reputation, and also substantially attaining firm strategy [16].

Companies with more socially responsible activities had stronger economic results in profitability, market value and non-financial performance. Findings in some scholars which measured CSR by conducting questionnaires on corporate social actions and assessed firm performance through accounting-based proxies proved that better social performance significantly relates to a stronger monetary performance [6,13,17]. In addition, the empirical results still convinced the significant relationship between CSP as evaluated by reputation rating and firm profitability [1, 18]. Other authors used content analysis in the report to assess CSR find out the same positive results of CSP – CFP relationship [18].

Performing obligations as a good corporate citizen, enterprises will be able to reach a better market achievement. Research analysed the interaction between different-measured CSR and market-based firm performance. While Balabanis follow reputation ranking to measure CSP; Klassen and McLaughlin choose questionnaires in analysing the link between CSP and CFP [19, 20].

Blasi et al. investigated the relationship between global environmental standards and market value as well as accounting-based measurements. They found the positive impact of CSR on firm performance. It means that the enhancement of corporate social responsibility brings benefit for financial performance [21].

Moreover, CSR not only affects the financial performance but also strongly correlates non-financial performance. Most of corporations obtain their CSR as a consequence of management mindset, which could benefit corporate reputation and boost the influence in marketing strategies, while positively relates to firm performance. In addition, Rettab also recognized that CSP has a significant relationship with financial performance, personal commitment, and corporate integrity [22]. Maqbool highlighted that improving CSR such as ameliorating working conditions and paying more attention to workers leads to better working efficiency [18]. Significant correlation occurs when alteration of CSP leads to short-term and long-term business strategy [16, 23]. Similarly, Judge and Douglas discovered that the extent of integration of environmental matters positively associates with building strategy and reaching the high firm's financial performance [24].

4.2 CSP has a negative effect on CFP

On the contrary, the studies argued that the only purpose of business is gaining as much as possible profit for shareholder on condition of obeying legal and ethical policy [7]. This debate is consistent with the Trade-off hypothesis as suggested by Preston and O'Bannon as well as proven by empirical research [12].

Brammer et al. presented the negative relationship between CSP and CFP using stock returns [25]. In the research of Wrana and Diez, global CSR has been found that it has a negative impact on productivity growth [26]. These findings advocate that non-economic pressures are able to affect corporate administrative tactics rather than value-added objectives.

4.3 CSP has no effect on CFP

There are some studies supporting the statement that the corporate economic performance was not modified whether the companies did socially responsible activities or not [27].

CSP has not influenced in the market performance of enterprises. Hamilton et al. showed that social responsibility elements have no effects on the expected stock return or companies' cost of capital [28]. The share value of stocks is not impacted by CSR disclosure even if corporates pay much effort on presenting more information about these issues. Socially screened equities have not remarkably linked to the unscreened equities in average return [29]. Benefits of investment in corporate social responsibility have no significant relationship in business strategies and market-based performance [9].

In addition, no evidence of the association between corporate philanthropy and the profitability of the firm [30]. The neutral relationship also found in the studies of Wuttichindanon [31].

5 Discussion

According to the findings of research in literature, the outcomes are not consensus. Majority of the included studies found a positive relationship between CSP and CFP. It means that most authors are in favor of the positive relationship between corporate social responsibility and firm performance, which was supported by stakeholder theorist [10]. However, it is hard to generalize the findings in the different period of time and the results must be placed in the proper perspective [2]. For instance, the concept of CSR nowadays is much more complicated as compared to the decade of 1970 when shareholder theory proposed by Friedman appeared [7]. Another reason is that the social action is not definitely conceived by law but it also depends on what society supposed [5]. We can not decide whether the companies react in a responsible way to get much profit or it is not clear to state that enterprises' benefit can increase for those act responsibly.

Furthermore, the measurement of CSP and CFP are varying in different studies. Regarding CSP measurement, the social reputation rating is used most widely in empirical research as compared to other two categories, especially in developed countries. It is believed that the CSR information evaluated by outside organization is objective and reliable. Nevertheless, the reputation ranking does not exist in most of developing countries so it causes some difficulties for research in those countries. For CFP measurement, the number of accounting-based research found positive CSP – CFP relationship is larger than market-based ones. In general, that is difficult to create a consistency in the field of CSP and CFP measurement, which restrain the generalizability of research results.

Conclusions

To sum up, the paper has introduced the widely supported definition of CSR, the measurement of corporate social performance and corporate financial performance in the CSP – CFP relationship. The empirical findings discussed in literature

review showed that the CSR's effect on firm performance is still debatable because of the contradictory results in the previous studies. The review has shown that the majority of research present the positive association between CSP and CFP. On the other hand, the analysis of the link between CSP – CFP has focused on financial performance and there are a few scholars mentioned in non-financial performance. Nevertheless, the firm performance should be considered in the overall picture of the mix between financial and non-financial performance. In addition, the number of research in developing countries is limited so it needs more research carried out in case of those nations in order to find out the more adequate results on the real impact of CSP on firm performance.

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