Impact of Corporate Social Responsibility on Corporate Financial Performance

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Abstract
In this modern society, corporation and its managers are publically pressurized to play an active role in society; it is called corporate social responsibility. The relationship between corporate social responsibility and corporate financial performance has been discussed by different researchers and scholars. This relationship has always been a topic of debate for last decades. Different researches have been conducted to explain the relationship between corporate social responsibility and corporate financial performance and also explore the impact of social responsibilities on corporation performance. However, there have been many variations in the results of researchers finding about the relationship between corporate social responsibility and corporate financial performance variables either positive or negative. There are few studies also pointed out that this relationship is mix or neutral. The objective of our study is to explain the relationship corporate social responsibility and firms financial performance and also found to know whether corporate social responsibility has any impact on corporate financial performance or not. As per finding of our study, there is a strong positive relationship between corporate social responsibility and corporate financial performance. There is varying impact of corporate social responsibility on corporate financial performance as the result of different studies. Some studies indicate positive impact where as other findings that this relationship to be negative. Difference in results of these studies is due to different CSR metrics, methodology and statistical tools and the mediating variables (R&D and company size).
Keywords: corporate social responsibility, corporate financial performance, research & development, ethical practices

1. Introduction

Corporate social responsibility is defined as the responsibility of an organization towards its stakeholder. Backer (2004) has define corporate social responsibility is a method that how companies controlled over all process of the business for positive impact on society.

The field of corporate social responsibility has been a topic of debate from the last few decades. Many fortune 1000 companies also issue annual corporate social responsibility reports. The companies pay more attention to define and integrate corporate social responsibility in all aspects of their business. Because of information technology, news media, community organization, labor unions, companies are bound and accountable of corporate social responsibility issues.

A socially responsible organization should adopt policies and corporate social responsibility practices that contribute to the welfare of its major stakeholders. Corporation engage in corporate social responsibility comprehensive practices, polices and program also integrate these polices with business operations. These practices solve issues related to business ethics, environmental concerns, communities' rights and human rights at the workplace. Every company implements these corporate social responsibility practices differentially. This difference in implementing corporate social responsibility polices is depend on the company size, company business culture, types of the industry and stakeholder demand. Some company focus only one area of corporate social responsibility practices because they have highest impact on it for example the environment or employee rights. Most other companies focus to integrate corporate social responsibility in all areas of their business. For the success of these corporate social responsibility practices, implementation, it is necessary that these corporate social responsibility practices are the part of strategic planning and corporation's values and beliefs. It is also necessary that corporate social responsibility strategy relate with corporate objectives and core values.

Corporate social responsibility practices include providing quality products, building employee relations, to protect environment and contribution and overall economy. Schwartz observed that socially responsible behavior of the firms in 1970 is,

i. Disclosure all information to stakeholder.
ii. Appointing disclosure of board of director.
iii. Minority's protection/equality.

iv. Profit sharing.
v. Ethics in advertisement base.
vi. Disclosure of social impact of technology.
vii. Protection of environment.
viii. Disclosure of charities.
ix. Investment in local business.
x. Employee's Schemes (Health and Safety measures, flexibility in jobs).

Many empirical studies have been conducted to know that impact of corporate social responsibility on corporate financial performance. Different researchers used different techniques for knowing their relationship and found variations in results. Some researchers conclude that there is positive impact of corporate social responsibility on corporate financial performance while others point out that this relationship is negative. Some of these researchers show the neutral impact of corporate social responsibility on corporate financial performance. Research conducted by Audile and Fagbemi (2012), are found that corporate social responsibility have a positive impact on corporate financial performance. Their research conducted that the firms who employ corporate social responsibility practices in their business operations and decision making tend to be more socially responsible. This provides positive impression about the corporations to all the stakeholders and also the economy. By implementing corporate social responsibility practices enhance the company reputation among employees, supplies, lenders, banks and general public directly and indirectly. This activity helps the company to improve financial performance and lead the company toward prosperity.

It is argued that there government is responsible for addressing the corporate social responsible issues; the private firms can be contributed substantially. There is also the argument of changing the balance of power so; this economic power has shifted to all the operations, there for government role and responsibility of addressing social problem and issues completed. For example, the government only sets the rules and regulations and standards for the workplace, but it is a corporation that can further improve the environment of workplace and better the employees living quality. A firm is responsible to solve the environment problems in which it operates. However, adoption of corporate social responsibility principles involve in long cost. These costs involve purchasing of equipment that is environment friendly, change in management structure. Since being involved socially having cost but it should generate long term benefit and business should be sustainable. Socially responsible companies' performance correlate with series of benefit some time it seems that cost occurred but benefit not realized. A corporation that is socially responsible benefited from its business reputation due to social activities. Its ability to attract new partners and capital increased. Corporation reputation hardly measureable so it is harder to measure that how much company's value increases. The main benefit to socially responsible companies is they have less risk of uncertain events. Thus the business more socially responsible should have more sustainable earnings, growth and less chances of foliar. Corporations that are having strong corporate social responsible commitment have increase ability to satisfy attract and retain their employees. This leads towards less turnover and reduced cost of recruitment and training. It is harder to measure as earlier discus in corporate social responsibility definitions that it is completed to measure the effects of corporate social responsibility practices separately. However, it should be possible to remain all other factors constant and then measure a corporation financial performance and cash flows before and after the implement corporate social responsibility principles. Empirical methods are also used to identify the relationship between corporations CSR practices and its financial performance.

2. Literature Review

The impact of corporate social responsibility on firms overall performance has been a topic of debate between different researchers and scholars. Different researches have been conducted to explore the impact of corporate social responsibility on firm's performance. Techniques and Methodologies used by different researchers were different and there have been different opinions about the results. Some researcher's finds that there is positive impact of CSR on FP where others pointed out negatively impact and neutral also.

Corporate social responsibility has a positive impact firms performance as indicated by the pervious researchers conducted by Uadiale and Fegbemi (2012), Weshah et al. (2012), Tsoutsoura (2004) and Waddock and Graves (1997), Pava and Krausz (1996), Spicer (1978) and Rozen et al. (1991). Its means firms who apply CSR practices in their long term corporate planning and decision, they are identified as social responsible.

Due to performing of these practices, firms have positive impression not only to the interested parties but also to whole economy. Stakeholders like supplier, lenders, banks, general public and all other affiliated parties must be affected through these practices and a positive image created in the mind about the firm. The result of these consequence's in the shape of financial property and improving on financial performance and growth.

In spite of these researchers, Yang Lin and Chang (2010), McGuire et al. (1988) Founds that impact of corporate social responsibility on firms performance to be negative. That means the use of idle and huge financial resources on corporate social responsibility practices does not give a positive impact. Firms must require putting these slack financial resources in some productive projects in spite of performing such type of social

responsibilities practices. Firms that perform these practices are more financially distress as compared to those who not perform these practices but pay little attention on it.
Yan Lin and Chang(2010) and other researches claims that firms main objectives to work the benefit of the stake holders in not for the whole society so they are liable not to invest their idle resources in these social and moral practices. They claim that by performing these practices companies weak in their financial position.
In spite these positive and negative impact of corporate social responsibility on firm performs, some researchers Khanifar et al.(2012) and Orlitzky et al.(2003). Found that the impact of corporate social responsibility on financial performance is neutral. This was pointed out on the behalf Meta analysis executed through previous empirical researches.
There are so many reasons about results of different of research such as lack of authentic and accurate definition of corporate social responsibility use of different matrices of corporate social responsibility and also many others related and existing factors of corporate social responsibility.

2.1Ethical Practices

Acting in an ethical way means do thing right and distinguish between "right" and wrong and at the end choose the right thing For example firm should not use the child labor, firms should not use material of copy right and process. One of the most important dimensions for firms' success is the performing unique quality of ethical practices. Ethical practices are the heart and soul of the firms' culture and it is a mean for the success and failure. Firms must set ethical example and create policies and procedures that govern these activates.
(IBE) Research believes that
Ethical practice can be a term for making contract with large customers to ensuring unity of supply chain.

2.2 Why Should a Firm Act Ethically?

Business firms have great impact on people lives and have a great share in economic growth. Business firms totally occupied on society by paying taxes, government spend these taxes on general public welfare through financing schools, colleges, hospitals and other public services.

2.3 Impact of Ethical Practice on CSR Relationship

Ethical practice and corporate social responsibility may be a firm's long term success. If a firm performs ethically in doing business then it might be understand that firm is socially responsible.
Unethical behavior leads to lack of corporate social responsibility. It may damage the firm's reputation (The Times 100).

2.4 Legal Practices

Corporate governance data and legal practices are the strength of investor and legal protection. Firms three attributes investment opportunities, external financing and ownership structure related with these practices. By using corporate governance and transparency we find that these attribute related with quality of governance and legal practices disclosure. A firm having high corporate governance and transparency has higher value in industry era. If firms have poor legal environment and corporate governance structure called less corporate social responsible firms. (ARTDURNEV June 2005).

2.5 Stakeholder wellbeing practice

Corporate social responsibility and belief of a stakeholder approach are initial concepts when we examine the role of business in society (ART DURNEV1 June 2005). Business firms must perform the activities which are in the best interest of the stakeholder and their wellbeing. Business is accountable in all the stakeholders who can be engage and identified and they have right of claim, ether legally mentioned are morally expected. The business activities that directly or indirectly affected them (Frederick, 1987, Mitnick, 1995, Juns, 1999). Corporate social responsibility is associated with stakeholders wellbeing practices and also with social contract. Moir (2001) .Firms responsibility is to work with wealth maximization of its stakeholders. Firms start working on this point after the development of stakeholder theory.

2.6 Corporate Social Responsibility

The relationships between firms and society have been a topic of debates, at a special point in time (Moir, 2001). This study will examine the impact of some independent variables on corporate social relationship and corporate financial performance.
Adam Smith's book "the wealth of nation" 1776 opus, is regarded as the landmark of advanced capitalism (smith, 1991). Smiths' describe that when firm is free to peruses profit and efficiency .it benefits the common good means it serves both the interest of firm and the society at best (Lantos, 2001).
In 1953, Bowen introduce the idea of "corporate social responsibility" of business people other than only profit seeking. There is significant increase in the interest of corporate social responsibility field in 1960s and 1970s. There is a positive relationship between corporate social responsibility programs and firms economic performance (post et al.2002, Margolis and Walsh, 2003, mcadom and Leoma oral, 2003).

2.7 Corporate Social Responsibility Academic Research

Corporate social responsibility refers to the duties of business to pursue those decisions and those police and to follow those direct actions which are desirable of stakeholders and society ad well. This action will be in terms

of objectives and values of the whole society, Bawen (1953).
Corporate social responsibility is defined as the interaction and impact of business firms in three different dimensions (1) voluntary contribution (2) impact of operation and (3) impact through the value chain Unileve (2003).
Corporate social responsibility is broadly defined and more complex term. It may be defined as the individual contribution firms to the environment, societal and overall economic improvement. This concept reveals the firms with the society. (1991)

2.8 Corporate Social Responsibility Dimensions

There are different five dimensions of responsibility of corporation. These dimensions include stakeholders' voluntariness economic, social, and environmental dimensions (Dablsrud.2006).

2.8.1 Stakeholder Dimension

Stakeholder dimension is very important as perspective of firms that are socially responsible. Firms must interact, protect their interest and give them monetary as well as non-monetary benefit.

2.8.2 Social Dimension

Firms must require participating in those activities which are in the best interest and in benefit of the society. Boundaries of activities include provision of quality products and services, provision of employment opportunities and also protect the right of minority same as majority.

2.8.3 Economic Dimension

Corporate must be performing those activities which leads economic development and county prosperous. It is a responsibility of firms to make sure the best utilization of national resources and to work accordingly, the rules define by the nation.

2.8.4 Voluntariness Dimension

Corporate must be involved in activities which are not enforcing by law. These activities are beyond the legal obligation such as ethical practices for society wellbeing and rehabilitation of disasters victims.

2.8.5 Environment dimension

Environment dimension include firm working in those areas which are for away from population. Firm most establish industries and factories disposal plant for wastage and control noise and prevent people firm their reaction.

2.9 Corporate Financial Performance and its Relationship with Corporate Social Responsibility

There have been many studies conducted to know the important of corporate social responsibility and corporate financial performance. Different researches have different opinion about the impact of corporate social responsibility and corporate financial performance some says positive impact where as some pointed out negative or neutral impact (Luis Garaya 2011). As define in previous section that there is a mixture of CSR and CFP due to different research method and omission of contingency aspect (Ullmann, 1985). Researchers suggest that these variations in the result of impact CSR on CFP and resolved by adopting the theory of contingency (Wagner, 2001; Husted, 2000; Margolish and Walsch, 2003). Orlitzky et al, (2003) says that the power of relationship between Corporate social responsibility and corporate financial performance depend upon reputation of firms and operation performed in society. Some of other researcher also claimed that the relationship between CSR and CFP was positive by using resource base view (Hilman and Keim, 2001). Depend upon basic review of strategic management the finding are that corporate financial performance relate with business environments, business strategy, control system and ethical practices of the firms(Lenz, 1980; Gupta and Govindarajan, 1982 and 1984).
However, the current study focuses to meet the gap between corporate social responsibility and corporate financial performance by using stakeholder wellbeing, ethical practice, legal practice, business strategy and mediating effect of research and development cost and company size. These all factors explain the relationship between corporate social responsibility and corporate financial performance negative in short term and positive in long term.

2.10 Impact of Mediating Variable on CSR and CFP Relationship

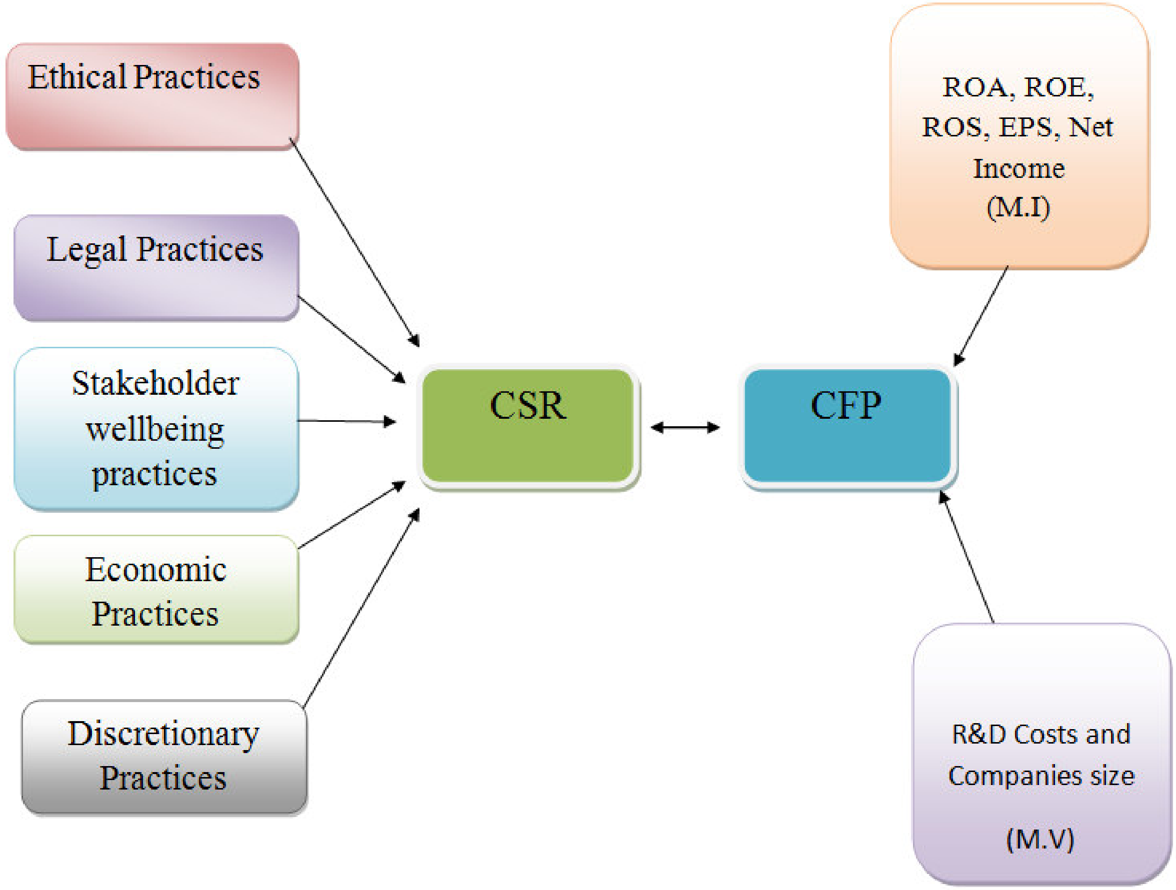
The relationship between corporate social responsibility and corporate financial performance was identified to be negative in a research conducted by Yang Lin and Chang (2010). When research and development and company size that are control variable included in research. Before 2010 most of researches not on include these mediating variables and therefore result presented that there was a high positive relationship between corporate social responsibility practices of firms and the financial performance of corporation. Anyhow, it is interesting to describe that this relationship was negative when these mediating variable included in the research analysis. The reason is that increasing research and development cost reduce the corporate financial performance due to cost burden and also decline in profitability in performance of firms.

2.11 Measuring Indicators for Corporate Social Responsibility and Corporate Financial Performance

Researchers were used different accounting and marketing variable as a measuring indicator for corporate social responsibility and corporate financial performance. These variables are ROA, ROE, ROS, EPS and Net Income

Stock Returns Waddock and Graves (1997), Black Burn (1994), Tobin's et al. (2008).
Other researchers have been used many different measuring indicators for measuring the relationship of corporate social responsibility and corporate financial performance Waddock and Graves (1997), such as KLD. Voluntarily disclosure index used by Uadiale and Fagbemi (2012) the reason of using different measuring indicators of corporate social responsibility and corporate financial performance as the availability of information required as per industry, economy of the country and corporation under the research boundaries. Following is the hypothesis of this research study.

Theoretical Frame Work



Abbreviations used in Model:
CSR = Corporate Social Responsibility
CFP = Corporate Financial Performance
MI = Measuring Indicators
MV = Mediating Variables
ROA = Return on Assets
ROE = Return on Equity
ROS = Return on Sales
EPS = Earnings per Share
Hypothesis: H1: There is a positive relationship exists between corporate social responsibility and firm financial performance.
H_o: There is not any positive relationship exists between corporate social responsibility and firm financial performance.

3. Methodology
In different studies there were different measuring indicators used for the measurement the relationship between corporate social responsibility and corporate financial performance. For example return on Assets (ROA), Return on Equity (ROE), Return on Sale (ROS), Earning per Share (EPS) and Stake Return by Waddock and Graves (1970). Meta-analysis also used to show the relationship and there is variation in results of different studies using this analysis. The result should be positive or negative due to use of different methodological and measuring indicators. This paper based on theoretical/conceptual research and proposed a conceptual frame work about the

impact of corporate social responsibility on corporate financial performance. The objective of this study is to find out the issues of implementing corporate social responsibility practices and studying multiple research paper to resolve these issues. The conclusions of different studies from the literature review of previous researches and articles which support this study are as under.

Table.No.1:

Taxonomy of study					
Sr.No	**Types of research (empirical/conceptual)**	**Name of Author**	**Relationship sign**	**Indicator CSR used in study**	**FP Indicator used in study**
1	Emperical study	Uadiable and Fagbemi(2012)	Positive (+)	Voluntary Disclosure Index	ROE&ROA
2	Meta /conceptual study	Khanifar et al. (2012)	Mixed / Neutral	Voluntary Disclosure Index, KLD Index	ROE, ROS, ROA, P/E ratio, and EPS
3	Empirical study	Yang et al. (2010)	Negative (-)	Are SE Method	ROE, ROA and ROS
4	Empirical study	Weshah et al. (2012)	Positive (+)	Ratio of the amount of donations revealed	ROA
5	Empirical study	Tsoutsoura (2004)	Positive (+)	Domni 400 Social Index, KLD Index	ROE, ROA and ROS
6	Meta /Conceptual study	Orlitzky et al. (2003)	Mixed /Nuetral	Voluntary Disclosure Index, KLD Index, Domni 400 social Index	ROE,ROA, P/E ratio
7	Empirical study	McWilliams and Siegel (2010)	Mixed / Nuetral	KLD Index	ROA
8	Empirical study	Waddock and Graves(1997)	Positive (+)	KLD Index	ROE, ROA and ROS
9	Empirical study	Blackburn et al.(1994)	Positive (+)	CEP Index	EPS, ROA, abnormal return
10	Empirical study	Aupperle et al. (1985)	Negative (-)	Carroll's CSR construct (1979)	ROA
11	Empirical study	Margarita TsoutsouraMarch, 2004	Positive (+)	Domni (KLD)	ROA, ROE and ROS

Table No 2

The relationship sign between CSR and CFP				
Sr. No	**Paper**	**Result**	**Variable**	**Sample and Method**
1	Markowitz , 1972	Positive (+)	Shares	14 firms
2	Brangdon and Marlin, 1972	Positive (+)	ROE , ROC and EPS	17 paper firms
3	Bowman and Haire, 1975	Positive (+)	ROE 1969-73	14 firms with Equal dimension and sector
4	Alexander and Buchholz, 1978	Neutral	Capital gain 1970-74, Beta	40 firms
5	Spicer, 1978	Positive (+)	ROE , P/E ratio Beta	18 paper firms
6	Vance, 1975	Negative (-)	Shares1972-75	14 firms by Moskowitz
7	Wright and Ferris, 1997	Negative (-)	Eccesso direndimenti	31 firms
8	Chen and Metcalf,1980	Positive (+)	ROE , P/E ratio Beta	16 paper firms
9	Cowen, Ferreri and Parker, 1987	Positive (+)	ROE	Firms by Fortune
10	Waddock and Graves,1997	Positive (+)	ROA , ROE	Firms by S&P 500
11	Aupperle, Carroll and Hatfield,1985	Neutral	ROA , Beta	241 firms
12	Luce , Bbe,Hillman 2001	Positive (+)	ROA	100 Firms by S&P500
13	Preston and O' Bannon,1997	Positive (+)	ROA	67 Firms 1982-1992
14	Mc Williams and Siegel,2001	Neutral	ROA, R&D expenses	524 firms by Compustat

Description

This study used the findings of total twenty five previous researches to prove its own investigation. Different researchers used different measures to investigate about the impact of corporate social responsibility on corporate financial performance. Majority of the researchers support my hypothesis and concluded that there is a significant positive impact of the corporate social responsibility on the corporate financial performance. Fifteen out of twenty five researchers concluded and asserted that there is a significant positive relationship between corporate social responsibility and organization financial performance which provide my supposition authenticity. Minority of previous researchers means only four researches out of twenty five findings reject my hypothesis and concluded that there is a negative relationship between corporate social responsibility and firm financial performance while other six researches out of twenty five are of the view point that there is no significant positive or negative relationship exists between corporate social responsibility and corporate financial performance.

4. Conclusion

This research is conducted to know the relationship between corporate social responsibility and corporate financial performance. As per the previous study corporate social responsibility is found to have a positive impact on corporate financial performance but this impact cannot be generalized to all economies and industries. There has been different impact of corporate social responsibility on corporate financial performance for developing and developed countries. In developing countries corporation have a single opportunities for investment and contribute in the economy, whereas in the developed countries corporation continuity participate in social activities for long term benefit. Companies that are in growth stage of their industry life cycle show hesitation in investing financial resources in corporate social responsibility activities. However, there is a strong positive relationship between corporate social responsibility and corporate financial performance. Corporation that implement corporate social responsibility practices, its reputation enhance among shareholder, labor union, employees, social media and investors. It is also necessary for the company that it should be financially strong in order to implement corporate social responsibility practices. It should have strong and sufficient resources to corporate social responsibility practices. If company investing capital in corporate social responsibility traps then the company faces financial distress. If a company wants to implement corporate social responsibility practices then it should be slack resources and it keeps sufficient financial resources aside in the form of reserve to meet the uncertain situation. We conclude the impact of corporate social responsibility on corporate financial performance varies as per the industry and economy under this study. Firms having involved in corporate social responsibility practices benefited in the long run and this will boost up the profitability of corporations.

Recommendation

This is an era of modern society and increased competition. It required business corporations to dominate their existing position by formulating financial polices not only for strategic purpose and profitability prospective but also giving benefit to all stakeholder, environment, society and economy by investing in corporate social responsibility practices. Company must keeping in view the future need of financial capital and availability of slack resources and then funding in corporate social responsibility practices. Corporations that have getting a sustainable financial position should invest in corporate social responsibility activities and its require sufficient slack resources and reserve fund to meet the future uncertainties' and investments projects. Moreover in order to continue the corporation participation in social responsibility activities on a regular basis, companies should be providing financial reports about these practices. This will help corporations to continue corporate social responsibility practices by means of awards and improving their investment rating. This will be boost up the profitability of corporations.

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