




Social Responsibility and Corporate Financial Performance: Theoretical Framework

Mohammed Nawaf Jallad^(✉) 

Palestine Technical University- Kadoorie, West Bank, Tulkarm, Palestine, Israel
m.n.jallad@ptuk.edu.ps

Abstract. After many countries abandoned part of their economic and social roles, interest in corporate social responsibility has become an urgent and necessary need for what goes back to society and the companies themselves. Many studies have been conducted linking social responsibility and corporate financial performance, including a positive, negative, or neutral relationship. Against this background, this study aims to highlight the importance of corporate social responsibility by summarizing a number of empirical studies that linked corporate social responsibility to financial performance through knowledge of theoretical concepts and methods of measuring both variables and then defining a comprehensive conceptual model that illustrates the dimensions of this relationship which can A number of future researchers benefit from it.

Keywords: Social responsibility · Financial performance · Market to book value · Corporate

1 Introduction

The economic system in most countries depends on private sector institutions, which constitute a considerable percentage. Also, interest in the concept of social responsibility occupies a large area because it is of great importance in reducing economic and social problems such as poverty and unemployment and reducing environmental problems such as pollution and the waste of natural resources (Al. Najjar 2016). In the year 2005, out of every ten dollars, the US invested one in professional management as a social responsibility, and these investors with social responsibility were very interested in the responsibility of producing external factors that affect the demand for their shares; Accordingly, conclude that corporate social responsibility can either increase or decrease a company's market value. Therefore, companies must increase their market value through social schemes and a competitive stock market (Raza et al. 2012). The social impact of business organizations is a critical issue; therefore, we always find a prominent issue in the modern business world centered on the consideration of decision-makers and managers of organizations and the environmental and social factors in their decisions within institutions (Uadiale and Fagbemi 2012). This paper is crucial as it will serve as a resource for future researchers to review and develop research that supports the concept of social responsibility in the business organization sector by highlighting

several recent studies that link social responsibility and the financial performance of companies. The profit target for companies is a legitimate right; to achieve this goal; it must be linked to continuity. This continuity is only achieved if there is a vital incubator for the company, and this incubator is CRS. The study's significance stems from explaining why corporate social responsibility is so valuable from the point of view of different sectors. This study used a literature review approach and evaluated recent quantitative literature exploring the relationship between CRS and financial performance and providing a comprehensive conceptual framework for future researchers. This research consists of three parts: the first part of the study defines companies' social responsibility and financial performance and ways to measure these variables. In the second part, we discussed the importance of CSR and reviewed several recent articles linking CSR to CFP. In the last part, we designed a comprehensive conceptual framework clarifying the relationship between the two variables.

2 Corporate Social Responsibility (CSR)

CSR is one of the most important issues that still dominates the existing literature, and many definitions of this term contain different points of view (Karagiorgos 2010). Jones (1980) Social responsibility in business Is the notion that companies have a societal duty to represent classes other than shareholders beyond what is prescribed by statute or union contract. The concept of CSR includes incorporating environmental and social standards into business operations and in their dealings with stakeholders voluntarily (Uadiale and Fagbemi 2012). The social performance of companies is measured using annual reports that disclose companies' environmental and social activities in addition to some measures such as multi-faceted CC and CSP standards and many international standards (Alexander and Buchholz 1978).

3 Corporate Financial Performance (CFP)

Financial Performance: Capacity to direct and manage a business's resources; during a certain time frame, a company's financial performance is the total of its capital adequacy ratio, liquidity, debt, solvency, and profitability measures. (Fatihudin and Mochklas 2018).

To find out the level of the financial performance of companies, the analysts perform the financial analysis, which is mean: It is the process of identifying the company's strengths and weaknesses by analyzing the financial statements and linking its elements to each other to extract specific percentages and then comparing the results of the analysis with previous years or comparing them with other companies (Tekatel 2019). There is no consensus on the measurement tool analysts must apply to measure financial performance. Some use accounting measures that focus on the historical aspects of the company's performance, while others focus on market measures that look to the future and focus on market performance which is the company's ability to make profits in the future (Tsoutsoura 2004).

4 The Importance of Corporate Social Responsibility

Interest in CRS has increased, especially as many countries have given up some of their economic and service roles (Elasrag 2011). Hence, companies are no longer seen as a vehicle for making money and delivering goods and services of the highest quality and at competitive prices. Rather, it is also seen as a tool to help local communities live at a good level and in a healthy environment (Carrigan and Attalla 2001). The most important benefits that companies that adopt the idea of CSR receive are: lowering operating costs, enhanced quality of production, increased profits, enhancement of their overall reputation in the local community, and several other benefits (Talhouni 2012). In other words, it can be said that CSR is an investment that returns to companies in increasing profits and productivity, increasing the loyalty of employees and customers, and reducing disputes between management and workers and the environment in which they work (Elasrag 2011). Therefore, implementing corporate social responsibility strategies is necessary to achieve additional benefits for companies by establishing a sustainable business at all levels: 1- At the level of stakeholders: suppliers, investors, and customers. 2- At the administrative and organizational level: reputation, fame, brand, sales, and profits. 3- Eventually, on the environmental level (Ganescu 2012). From the researcher's view, the importance of corporate social responsibility is highlighted by linking it to financial performance. We will get acquainted with this by highlighting several recent empirical studies linking social responsibility to financial performance.

5 Literature Review

(Lin et al. 2009) was aimed to study the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP). The research was carried out on 33 companies in Taiwan. These companies were selected according to different requirements, the most important of which are those listed on the stock exchange and donated at least two and a half million Taiwan dollars. The research model contained an independent variable, a CRS, "Donations were used as a measure of CSR," and a dependent variable, the CFP. The financial performance of companies is divided into two parts: 1- Short-term financial performance "one year" and the Return on Assets "ROA" was used as an indicator of performance. 2- Long-term financial performance-3years "The Jensen measure, the amended Jensen measure, the Treynor measure, the Sharpe measure, and the MCV measure" were used as financial performance indicators. The study results showed that social responsibility had no significant positive effect on corporate financial performance in the short term. However, it has a significant, solid, and positive long-term effect on corporate financial performance.

(Adeneye and Ahmad 2015) this descriptive-analytical study aimed to study the relationship between (CSR) as an independent variable, and corporate performance (CP) as the dependent variable. This study was conducted on a sample consisting of 500 British companies. The data necessary for the study were obtained through the companies' annual and other reports. CSR was measured through the CSR index, while the following indicators, "market to book value (MBV), company size (Size), and return on capital employed (ROCE)" were used to measure corporate performance. The results

showed a strong positive relationship between CSR, MBV, and ROCE. However, the study did not find any significant connection between CSR and company size.

(Maqbool and Zameer 2018) this article also aimed to study the relationship between CSR&CFP of Indian banks, so the selected study sample consisted of 28 private and public banks, and the necessary data for the study was obtained through the annual reports of companies over a period of ten years (2007–2016). The bank's activities were divided into four categories "community, environment, workplace & diverse" to measure the CSR, also the following criteria "Stock Market Return(SMR), Price Earnings (PE), Return On Assets(ROA), Return On Equity(ROE), Net Profit (NP)" was used to measure CFP. (Capital Density, Risk, Size, Age) where used as a control variable. The results clearly showed that corporate social responsibility had a positive impact on the financial performance of companies.

(AL.Najjar 2016) this study was conducted on 28 companies listed on the Palestine Stock Exchange to study the relationship between CSR and the CFP. The researcher used a model consisting of CSR as an independent variable which consisted of four activities related to human resource development, environmental resource development, community service, and product quality. The model also contained a dependent variable that is CFP, and the following indicators "ROE, ROI, ROS, assets turnover, and market value" were used to measure CFP. The most important results of this study are that social responsibility activity related to the environment positively affected "ROA, ROE, assets turnover" the return despite the weakness of social responsibility activities related to the environment among Palestinian companies; there is no effect of social responsibility on the market value of companies.

(Akben-Selcuk 2019) this research differed from the previous three studies as it introduced ownership concentration as a moderator variable for the relationship between CSR and CFP; this analysis was conducted for the period 2014–2018 on 70 non-financial companies listed on the Istanbul Stock Exchange Index (BIST) 100. CFP was measured by the return on assets (ROA), while the sustainability index was used as a CSR measure which included high social responsibility companies. In addition, control variables "company size, leverage, liquidity, exports, diversification, revenue production, and the age of the organization" were applied when testing this relation. Finally, the results showed that a positive relationship exists between CSR and CFP, and findings also indicated that this relationship is negatively moderated by the concentration of ownership.

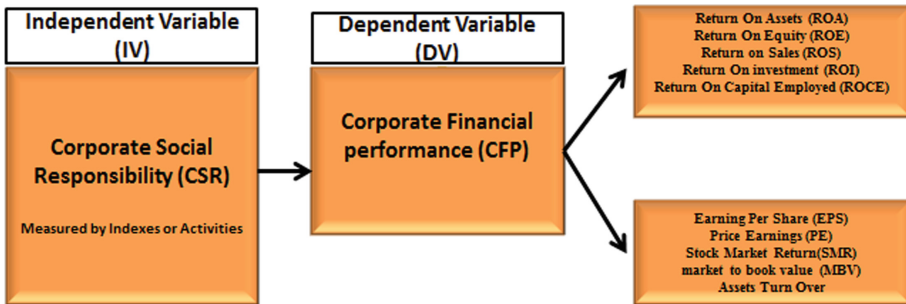
The study of (Lian et al. 2019) differed from other studies in terms of variables where the researcher used CSR as a dependent variable and used CFP as a dependent variable in order to study the relationship between them adding "firm size, leverage ratio" as control variables. The study was conducted on a sample of listed companies in Taiwan, and social responsibility was measured by companies that received the Corporate Citizenship Award through Commonwealth Magazine. While "ROI, ROA, EPS, and Gross margin on sales" were used to measure the financial performance of companies. This study used a quantitative approach, and the findings showed that CSR had a positive and important relationship with the EPS, but only positive and not important for "ROA, ROE, and Gross profit margin."

6 The Empirical Findings

The previous studies that we reviewed have reached several experimental results that may be useful for decision-makers, the most important of which is that marketers and managers within companies must choose their social programs carefully (Lin et al. 2009; Akben-Selcuk 2019) and the CSR must be integrated into their business strategic plans (Maqbool and Zameer 2018; Lian et al. 2019) which can consider as a competitive advantage in the long run for their companies (Adeneye and Ahmad 2015).

7 Conceptual Framework

By reviewing a number of recent experimental studies in pursuit of the relationship between CSR and CFP, we developed a detailed model (a mixture of previous literature models examined in this study); this model demonstrates the elements and variables that can be used by researchers to describe how CSR relates to CFP.



This model developed based on (Lin et al. 2009; Akben-Selcuk 2019; Maqbool and Zameer 2018; Lian et al. 2019; Adeneye and Ahmad 2015).

8 Conclusion

This study focused on the relationship between CSR and CFP by reviewing several research studies and concluding the following:

- Each researcher uses different elements and variables than other researchers, depending on the methods he follows or the available data, because each researcher has a different style and point of view from other researchers.
- The variable of CSR can include activities undertaken by the organization and the categories of these activities that differ from one study to another or can consist of local or international CSR indexes.
- This is also noted because the financial performance variable includes multiple variables and is categorized into financial or accounting metrics. Their usage depends on the researcher's assumptions or the available data quality.

- Most of the research considers social responsibility as an independent variable and the financial performance of companies as a dependent variable. Still, we may find researchers reversing these variables in a study (Lian et al., 2019) where social responsibility was considered a dependent variable and the financial performance of companies as the independent variable.
- To clearly define the relationship between CSR and CFP, some researchers may use control variables (Lian et al., 2019; Akben-Selcuk, 2019; Maqbool & Zameer, 2018; Adeneye & Ahmad, 2015).

Overall, the previous literature we reviewed in this paper showed a positive association between CSR (corporate social responsibility) and CFP (corporate financial results). Most of the research recommended the necessity of activating corporate social activities and including them in their strategic plans. The limitation of this study is centered on the few studies that have been reviewed and their generality. Therefore, future studies should be based on a larger sample of studies and allocate studies to groups such as those focused on developed and developing countries or large companies and SMEs, and compare the results to reach more accurate and generalizable results.

References

- Adeneye, B.Y., Ahmad, M.: corporate social responsibility and company performance. *J. Bus. Stud. Quarter.* **7**(1), 151–166 (2015). https://www.academia.edu/21992102/CORPORATE_SOCIAL_RESPONSIBILITY_AND_COMPANY_PERFORMANCE
- Akben-Selcuk, E.: Corporate social responsibility and financial performance: the moderating role of ownership concentration in Turkey. *Sustainability* **11**(13), 3643 (2019). <https://doi.org/10.3390/su11133643>
- Alexander, G.J., Buchholz, R.A.: Corporate social performance and stock market performance. *Acad. Manag. J.* **21**(3), 479–486 (1978)
- AL-Najar, J.: “Corporate social responsibility and their impact on financial performance (an applied study on companies listed at Palestinian securities exchange)”. *Hebron Univ. J. Res.* **11**(2), 65–101 (2016). <https://search.emarefa.net/detail/BIM-836887>
- Carrigan, M., Attalla, A.: The myth of the ethical consumer – do ethics matter in purchase behavior? *J. Consum. Mark.* **18**(7), 560–578 (2001). <https://doi.org/10.1108/07363760110410263>
- Elasrag, H.: Corporate social responsibility in Egypt. *J. Dev. Econ. Policies, Arab Plan. Inst.* **90**(9), 2–14 (2011)
- Fatihudin, D., Mochklas, M.: How measuring financial performance. *Int. J. Civil Eng. Technol. (IJCIET)* **9**(6), 553–557 (2018)
- Ganescu, M., C.: Corporate social responsibility, a strategy to create and consolidate sustainable businesses. *Theor. Appl. Econ.* **11**(576), 91–106 (2012)
- Jones, T.M.: Corporate social responsibility revisited. *Redefined. Calif. Manage. Rev.* **22**(3), 59–67 (1980). <https://doi.org/10.2307/41164877>
- Karagiorgos, T.: Corporate social responsibility and financial performance: an empirical analysis on Greek companies. *Eur. Res. Stud. J.* **XIII**(4), 85–108 (2010)
- Lian, Y., Chia-Yun, W., Jie-Bei, W., Tong, A.: Analyzing the relationship between corporate social responsibility and financial performance. *Int. Res. J. Appl. Finance* **10**(1), 43–54 (2019)
- Lin, C.-H., Yang, H.-L., Liou, D.-Y.: The impact of corporate social responsibility on financial performance: evidence from business in Taiwan. *Technol. Soc.* **31**(1), 56–63 (2009). <https://doi.org/10.1016/j.techsoc.2008.10.004>

- Maqbool, S., Zameer, M.N.: Corporate social responsibility and financial performance: an empirical analysis of Indian banks. *Future Bus. J.* **4**(1), 84–93 (2018). <https://doi.org/10.1016/j.fbj.2017.12.002>
- Raza, A., Ilyas, M.I., Rauf, R., Qamar, R.: Relationship between corporate social responsibility (CSR) and corporate financial performance (CFP): literature review approach. *Elixir Financ. Manage.* **46**(9), 8404–8409 (2012)
- Talhouni, B.: Corporate social responsibility. *J. Bank. Financ. Stud. Arab Acad. Manage. Bank. Financ. Sci. (AAMBFS)* **3**(20), 63–64 (2012). <https://search.emarefa.net/detail/BIM-317584>
- Tekatel, W.L.: *Financial Performance Analysis: A study on Selected Private Banks in Ethiopia* (Master's Thesis) (2019). <https://doi.org/10.13140/RG.2.2.33643.39203>
- Tsoutsoura, M. (2004). *Corporate Social Responsibility and Financial Performance*. UC Berkeley: Center for Responsible Business. <https://escholarship.org/uc/item/111799p2>
- Uadiale, O.M., Fagbemi, T.O.: Corporate social responsibility and financial performance in developing economies: the Nigerian experience. *J. Econ. Sustain. Dev.* **3**(4), 44–54 (2012)