

Corporate Social Responsibility and Organizational Performance: A Theoretical Review

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Abstract: *Achieving organizational objectives in the long run and maximum organization performance and effectiveness, requires giving full attention to corporate social responsibility (CSR). The societies where business is located occupy a central place in corporate culture affecting the firm performance thus necessitating change in the internal organization structures, processes and behavior. A theoretical review of CSR practices revealed a strong link between a firm's CSR practices and its performance.*

Keywords: *Corporate social responsibility, organizational performance, stakeholders.*

1. INTRODUCTION

The concept of corporate social responsibility (CSR) is not new; discussion about it began since the 1950s and has since continued to grow in importance and significance. It has been subjected to a lot of debate, comment, and research. In spite of the seeming endless discussion about it, it has seen a lot of development in both academic and practitioner communities all over the world (Carroll and Shabana, 2010). CSR is a concept whereby firms commit to improve their environmental and social performance beyond legal obligations. It is a commitment to improve the well being of a community through discretionary business practices and contributions of corporate resources (Charkraborty (2010). It is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development (Korkchi and Rombaut, 2006).

Performing CSR is necessary for firms that want to be successful in the long run (Korkchi and Rombaut, 2006). Fundamentally, CSR internalizes all external consequences of an action, both its costs and benefits. The term CSR encompasses a variety of issues revolving around companies' interactions with society.

This study is motivated by the fact that as the global business world is getting more competitive by the day due to globalization and technological change, only the effective will continue to maintain the top position and gain competitive advantage.

2. EMPIRICAL REVIEW

Despite worldwide discussion on the need and benefits for CSR, there are opposing views to the pursuit of CSR activities by companies as revealed by the studies reviewed in this paper. Empirical studies of the relationship between CSR and financial performance comprise essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The

results of these studies have been mixed. Some researchers believe that CSR principles do not make firms profitable as this is against classical theories of how market works. Those researchers are of the view that the only social responsibility of business is to use its resources and engage in activities designed to increase profits. On the other hand, others are of the opinion that firms who perform CSR know how the market works. In a survey by the Economist Intelligence Unit, only 4% of respondents thought that CSR was a waste of time and money (Baruch, 2013). Some studies that are of interest in this paper are reviewed below.

2.1. Corporate Social Responsibility and Financial Performance

Several studies have tried to explain the relationship between CSR and financial performance of firm. Among the list, Mittal et al (2008) investigated the relationship between CSR and organizational profitability in terms of economic value added (EVA) and market value added (MVA). The authors found that there exists a positive relationship between CSR and company's reputation and that there is little evidence that companies with a code of ethics would generate significantly more economic value added (EVA) and market value added (MVA) than those without codes.

Also Hossein, et al. (2012) examined the link between CSR and economic performance by examining different impacts of positive and negative CSR activities on financial performance of hotel, restaurant and airline companies, theoretically based on positivity and negativity effects. Findings suggest mixed results across different industries contributing to companies' appropriate strategic decision-making for CSR activities by providing more precise information regarding the impacts of each directional CSR activity on financial performance.

Similarly Emilson, (2012) researched into the correlation between CSR and profitability using economic value added (EVA). The study shows a low positive correlation between profitability and CSR. But previous research and the practical examples from the selected companies show a strong positive correlation between CSR and profitability. In the same vein, Skare and Golja (2012) investigated the relationship between CSR and financial performance. The authors confirmed that CSR firms in the average enjoy better financial performance than non-CSR firms.

2.2. Corporate Social Responsibility and Environmental Issues

Some studies focused on the impact of CSR on the environment. For instance, Lyon and Maxwell, (2008) examined the relationship between CSR and the environment. The study showed how both market and non-market forces are making environmental CSR profitable, and discussed altruistic CSR. The authors found that non-governmental organizations strongly influence CSR activities, through both public and private politics. The authors posit that CSR can have varied effects; from attracting green consumers or investors, to preempting government regulation, to encouraging regulation that burdens rivals. They however, observed that welfare effects of CSR are subtle, and there is no guarantee that CSR enhances social welfare.

Also, Tilt (2010) examined the contribution of accounting and accountants to the debate and practice of CSR. The study concluded that accountants' interest in CSR is much more wide ranging than simply an interest in the financial impacts on society.

2.3. Effect of Corporate Social Responsibility on the Society

The area of CSR and society is not left out in the studies on CSR. Of the studies, Swapna, (2011) investigated the role of CSR in community development (CD). The study concluded that being so much dependent, business has definite responsibility towards community development. In another study Okeudo (2012) examined the effect of social responsibility (SR) on the society. The study concluded that the society stands to benefit from company SR.

2.4. Corporate Social Responsibility and Corporate Governance

Among studies conducted on CSR and Corporate Governance is Germanova, (2008) investigation of the practice of CSR as Corporate Governance Tool in Bulgaria. He concluded that SR connects to governance at values level, making companies accountable to broad range of stakeholders (employees, suppliers, local community, and society at large) and incorporating social and environmental values in their operations in order to manage their relations with these stakeholders that can have impact on the company development.

Also, Choi, Lee and Park investigated the relationship between CSR, Corporate Governance and Earnings Quality and found that CSR ratings are negatively associated with the level of earnings management for overall firms but positive relationship for firms with highly concentrated ownership.

2.5. Corporate Social Responsibility and Shareholders Value

On the concept of CSR and Shareholders Value much have been done but with no consensus as to whether CSR improves the shareholders value. Bechetti et al. (2007) investigating the relationship between CSR and shareholders' value found a significant upward trend in absolute value abnormal returns, irrespective of the type of event, and a significant negative effect on abnormal returns after exit announcements from the Domini index. The latter effect persists even after controlling for concurring financial distress shocks and stock market seasonality. The findings established that CSR leads corporations to refocus their strategic goals from the maximization of shareholders' value to the maximization of the goals of a broader set of stakeholders. Bechetti et al. concluded that market penalizes the exit from social responsibility index and ethical funds.

In a related study Baruch, (2013) examined the impact of CSR on shareholders money. The study in an attempt to find out if CSR amounts to doing good or wasting shareholders money concluded that the business upside (potential gain) from CSR is modest at best. On the other hand the reputational downside from damage to communities or the environment can be huge. The study recommended that if CSR enhances sale and earnings, companies should just do it.

2.6. Corporate Social Responsibility and Competitive Advantage

Studies conducted on the association between CSR strategies and competitive advantage, have all agreed that CSR enhances a firms competitive advantage. Amongst the studies investigating the impact of CSR strategies on competitive advantage, Filho, et al., (2010) found that there is an intense association between social responsibility, corporate strategy and competitive advantage. Similarly, Shuili, et al., (2007) examined the moderating influence of the extent to which a brand's social initiatives are integrated into its competitive positioning on consumer reactions to CSR. The researchers' found that positive CSR beliefs held by consumers are associated not only with greater purchase likelihood but also with longer-term loyalty and advocacy behaviors. More importantly, the study found that not all CSR initiatives are created equal: a brand that positions itself on CSR, integrating its CSR strategy with its core business strategy, is more likely than brands that merely engage in CSR to reap a range of CSR-specific benefits in the consumer domain.

2.7. Corporate Social Responsibility and Financial Crisis

Studies linking CSR with economic and financial crisis have been conducted. One of them, an investigation of the consequences of the economic and financial crisis on CSR by Fernández-Feijóo (2008) acknowledged and explained the existence of double relationship between CSR and the crisis. The relationship appears in both the lack of CSR as one of the causes of the economic and financial crisis and as a tool for managing the situation and helping firms overcome the consequences of the crisis. He opined that organizations in their CSR implementation process must redefine their essential business objective so as to align with the strategy of the company and be coherent with the change in organizational culture that CSR represents. The new attitude, forms and perspectives should be the result of a deep internal reflection that will increase the core value of the firm.

2.8. Corporate Social Responsibility and Firm Value

Some studies have been carried out on CSR and firm value. A study in this area, Servaes and Tamayo, (2013) investigated the role of customer awareness with respect to the impact of CSR on firm value. The study showed that CSR and firm value are positively related for firms with high customer awareness, as proxy by advertising expenditures. The relation is either negative or insignificant for firms with low customer awareness. In addition, the authors, Servaes and Tamayo, found that the effect of awareness on the CSR-value relation is reversed for firms with a poor prior reputation as corporate citizens. This evidence is consistent with the view that CSR activities can add value to the firm but only under certain conditions. In the work, awareness is just a by-product of firm advertising.

2.9. Corporate Social Responsibility and Cost of Capital

Studies have been conducted relating CSR to cost of capital. One of such, Ghoul, et al., (2011) investigated the effect of corporate social responsibility (CSR) on the cost of equity Scapital for. The study find that firms with better CSR scores exhibit cheaper equity financing. In particular, the findings suggest that investment in improving responsible employee relations, environmental policies, and product strategies contributes substantially to reducing firms' cost of equity. Results of the study also show that participation in two "sin" industries, namely, tobacco and nuclear power, increases firms' cost of equity. These findings support arguments in the literature that firms with socially responsible practices have higher valuation and lower risk.

3. THEORETICAL REVIEW

The amount of literature available on CSR is massive and it continues to grow. Over the years the social involvement of corporations has increased. Earlier corporate entities mainly focused on their economic objectives; profitability, cost of production, margins etc. Corporate entities are now posed with the challenge pertaining to the social responsibility of business (Swapna, 2011). Companies can no longer satisfy just the needs of the investors, i.e. shareholder value. There are a number of persons or groups who influence the company. The company also influences these groups, which are called stakeholders.

Aligned with above, today's corporations are operating in a more connected world, one that is improving their conception of their social responsibilities. International trade has led to new aspects on the relationships between business and society especially for the multinational companies (MNCs). As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognized the benefits of providing CSR programs in their various locations. CSR activities are now being undertaken throughout the globe.

The scope of activities included in CSR programs is wide and subject to debate; however, most definitions include three key pillars of economic growth, ecological balance, and social progress. Elements within the framework of CSR include the adaptation of products and manufacturing processes to address social values (such as eliminating excess packaging), valuing human resources (such as personal development training and Occupational Health & Safety programs), improving environmental performance through recycling and pollution abatement (such as emission reductions), and supporting community organizations (such as by sponsoring a local sporting club) (Jones & Bartlett, 2009).

Carroll's model provided four dimensions of societal expectations for socially responsible business behavior- economic, legal, ethical, and discretionary (philanthropic) i.e. CSR Pyramid (Korkchi and Rombaut, 2006). There are three main perspective of CSR concerning the point ethical business based on social values and the stakeholders long term interest (Alpana, 2014). This is the triple bottom line approach of CSR which states that organizations should respect its important parts namely people, planet and profit (the triple-P bottom line). A variation of the term is the triple-E bottom line (economic, ethical and environment). The corporation should care about the sake of all this three parts at the time of taking decision and performing activities. Some theories on which CSR are founded are discussed below

3.1. Stakeholder Theory

A very basic theory to CSR is stakeholder theory. It asserts that managers must satisfy a variety of constituents (e.g., workers, customers, suppliers, local community organizations) who can influence firm outcomes. The theory was originally detailed by Freeman in 1984. It attempts to identify numerous different factions within a society to whom an organization may have some responsibility. Developments on stakeholder theory that exemplify research and theorizing in this area include Donaldson and Preston (1995), Mitchell, Agle, and Wood (1997) and Phillips (2003).

3.2. Legitimacy Theory

Another theory from which CSR stems is legitimacy theory. The theory posits that businesses are bound by the social contract in which the firms agree to perform various socially desired actions in return for approval of its objectives and other rewards and this ultimately generates its continued existence. Legitimacy is defined as a generalized perception or assumption that the

actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Van der Laan, 2009). The theory implies that there is interaction between groups and society. Organizations are one part of society and they exist if they are considered legitimate by groups in society.

Depending on an organization's perception of its state or level of legitimacy, it may employ 'legitimation' strategies (Laan, 2009) either to establish, extend, maintain or defend their legitimacy (Tilling, 2004) and control for potential, existing or perceived legitimacy gaps following legitimacy threats (Vourvachis, 2008). The theory implies that organizations seek to operate within what is considered accepted in society which is the essence of CSR. Stakeholder theory and legitimacy theory have developed from the broader political economy perspective. They both focus attention on the nexus between the organization and its operating environment despite the fact that they are different (Van der Laan, 2009).

3.3. Ethical Aspect

The ethical case for CSR, argues that corporations have a moral obligation to people and the planet which supersede the singular pursuit of profit. The ethical branch of stakeholder theory suggests that all stakeholders have the right to be treated fairly by an organization. The author of ethical theory is Immanuel Kant (1990). The ethic of CSR has been described as "the alignment of business operations with social values. It is not ethical to give attention only to shareholders and neglect employers' and customers' interest (Gotherstrom, 2012).

In ethical stakeholder theory, the firm is a vehicle for coordinating stakeholder interests and management has a fiduciary relationship to all stakeholders: where interests' conflict, business is managed to attain optimal balance among them (Tilt, 2010).

3.4. Shareholder Theory

The shareholder theory proposed by Milton Friedman states that a company's only responsibility is to increase its profits. He argued that a company should have no "social responsibility" to the public or society because its only concern is to increase profits for itself and for its shareholders. However, shareholders must rely on management to perform various functions as; managers may prioritize themselves in running of companies, which means that in actual fact, they do not create value for shareholders (Lazonick and O'sullivan, 2000). Furthermore, companies do not always have the knowledge or competence for different kinds of social and environmental projects. Resources are not used effectively when companies engage in different CSR activities (Henderson, 2001).

The origin of the shareholder perspective is that most companies start from an owner initiative associated with risk. The owner or entrepreneur invests his or her resources in an idea, but without a guaranteed returns on investment whereas, the return to other stakeholders such as lenders, employees, suppliers, is often regulated in contracts (Gotherstrom, 2012). From the perspective of shareholder value, the owners are special stakeholders and their interests should be prioritized. The owner can exert influence over the business, which to some extent compensates for the higher risk. The owners should therefore be prioritized over other stakeholders (Borglund et.al. 2012).

3.5. Information Asymmetry and Agency Theory

An asymmetric-information occurs when the quality and quantity of information available to parties to a transaction is not the same such that one party is at an advantage over the other. The theory of information asymmetry was propounded by George Akerlof in 1970 in his work "The Market for Lemons: Quality, Uncertainty and the Market Mechanism". Akerlof investigated the effect of asymmetric information on the market equilibrium, based on the example of the used cars market. The lemons problem can be solved through optimal contracts, regulations and information intermediaries such as analysts (Gotherstrom, 2012). CSR activities of organizations need to be effectively communicated to stakeholder groups. Information asymmetry consists of adverse selection (the pre-decision consequence of information asymmetry) and moral hazard (the post-decision consequence of information asymmetry).

Information asymmetry can be grouped into the "principal-agent problem". Agency theory dates back to Jensen and Meckling, (1976). Agency relationships exist when one or more persons, the

principal(s), hire another person, the agent, to perform some task on his (or their) behalf through delegation of some decision-making authority to the agent (Omolehinwa, 2006). The problem occurs when there is a conflict of interest between the principal and the agent. Agency theory recognizes that people are unlikely to ignore their own self interest in making decisions; in other words people do not behave altruistically (Crowther and Aras, 2008).

Under agency theory, both principal and agent are assumed to be rational economic persons i.e. they know what they are doing and they act consistently and rationally. They are both motivated by self-interest although they possess different preferences, beliefs and information. Both wish to maximize their own utility; the value or benefit they place on any economic good they receive (Crowther and Aras, 2008). The managers of an organization are essentially agents for the shareholders, being tasked with running the organization in the shareholders' best interests. The shareholders however have a little opportunity to assess whether the managers are acting in the shareholders' best interest (Akinsulire, 2010).

3.6. Summary of the Review

The theories of CSR are varied in terms of names, meanings, tenets and authors, their relevance to CSR cannot be questioned as they provided the basis for a good understanding of CSR concept. The theories are in harmony, they want to integrate the social requirements and contribute to society as well, in spite of the different approaches. The CSR Pyramid, the CSR key drivers and the triple-P integrate the theories on which CSR are founded.

4. CRITIQUES

The empirical and theoretical reviews showed that a lot of studies were carried out on CSR mostly in foreign countries. For instance Korkchi and Rombaut (2006) in Sweden, Baruch (2013), in New York, Glachant (2008) in Paris, Becchetti, Fisman, Heal and Nair (2006) in Columbia and Pennsylvania, Smith and Nystad, (2006) in Ireland and only Okeudo, (2012) in Nigeria.

The result of existing researches on CSR and its relationship with financial performance (shareholder's value and investor's perspective, among other economic and financial parameters) are inconsistent. Result of some studies showed a positive relationship between CSR and profitability [Hart and Ahuja (1996), Feldmal et al (1996), Russo and Fonts (1997), Buts and Pattner (1999), Dowel et al (2000), Konar and Cohen (2001), King and Lennox (2001), Thomas (2001) and Hibiki (2003)]. Some studies concluded that a negative relationship exists between CSR and profitability [Cordeiro and Sarlas (1997) and Wagner et al (2002)] while the study of; McWilliams and Siegel (2000) gave a non significant relationship between CSR and profitability. Also from above organizational performance was restricted to profitability. There is need to consider other aspects of performance such as return on capital employed, asset turnover etc.

Geczy et al., 2005 concluded that investors have positive attitude towards CSR and ethical considerations in deciding on investments. Barnea and Rubin (2005) found a negative relationship between CSR investment and insiders' ownership. Bauer et al., in 2007 found a positive relationship between investors and ethical investment funds. Bechetti et al., (2007) got a positive relationship between CSR and shareholders' value. Mittal et al., (2008) had an inconclusive result of strong evidence against the idea that CSR initiatives have universal or systematic positive financial impacts.

5. GAPS

Despite greater interest on CSR particularly in the area of its relationship with financial performance, results of previous studies are indeterminate. This implies that this area is riddled with inconclusiveness, this gap motivates the study. Also previous researchers focused more on profitability whereas organizational performance goes beyond profitability thus constituting gap in element. Most of the prior studies were conducted in foreign countries, indicating dearth of studies in African economies.

6. CONCLUSION

CSR has become very complicated and multifaceted. Links between CSR and cost, profit, long-range survival, etc. are not clear. Firms are driven into CSR practices to meet stakeholders, ethical, legitimacy, shareholders and information asymmetry/agency expectations, and in turn

gain image/reputation, profit, recognition, risk management and loyalty benefits. To achieve organizational aims and objectives in the short and long run and also to achieve maximum organization performance and effectiveness requires giving full attention to CSR practices.

From the foregoing, it is obvious that a lot of studies need to be conducted in African countries on CSR. Relationship between CSR and profitability, cost, long-range survival, etc. are not clear. Results have not been conclusive based on above. Thus, the empirical research into the relationship between CSR and economic performance is confusing and far from conclusive. There is need for an understanding of whether CSR is compatible with organizational performance.

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