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Corporate Social Responsibility and Financial Performance of some Listed Firms: Evidence from developed and Developing Countries

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ABSTRACT

Effective corporate social responsibility is vital to financial performance of listed firms in developed and developing countries. Corporate social responsibility has been a controversial issue especially in developing countries. The researchers reviewed existing studies on effect of corporate social responsibility on financial performance of some listed firms in developed and developing countries from 1989 to 2022. The studies on corporate social responsibility dimensions reviewed in this study were employees, customers and environment. Most of the findings showed that corporate social responsibility towards employees, customers and environment had a positive significant effect on financial performance. Therefore, the researchers recommend that management of listed firms in both developed and developing countries should take corporate social responsibility towards their employees, customers and environment seriously in order to increase the financial performance of their respective companies.

Keywords: Corporate, performance, responsibility, firms, social.

INTRODUCTION

Businesses are established with the aims of making profits. When profits are made, a certain percentage of the profits could be used as corporate social responsibility (Bashir, 2022). Corporate social responsibility is the resolution of a firm to improve socioeconomic wellbeing of people (Pradhan, 2016).

Corporate social responsibility is a business model which makes business organizations to carry out their activities in a way that bring an improved standard of living to society as well as an enhanced quality of the environment. It is a concept that emphases self-control within joint businesses (Barauskaite & Streimikiene, 2021). A business that takes the wellbeing of its stakeholders seriously would be successful in the long run.

Many researchers developed their interest in ascertaining how corporate social responsibility could improve financial performance (Mishra & Suar, 2010).Corporate social responsibility is one of the main issues that have been controversial for a long time (Buttneret al., 2010). It emerges as a result of business disputes.

Feng et al., (2021) asserted that corporate social responsibilities towards environment, customers, employees and community were normal corporate social responsibility practices. Ben Abdallah et al. (2020) pointed out that companies that tended towards corporate social responsibility and developed a good brand would have better financial performance.

Several studies were conducted on the effect of corporate social responsibility on financial performance; however their findings were found to be inconclusive. The studies conducted by Basuony et al. (2018), Grave and Waddock (1994) showed that corporate social responsibility had a positive significant impact on

financial performance while the studies conducted by wright and Ferris (1997); Bromiley and Marcus (1989) revealed that corporate social responsibility had a negative significant impact on financial performance.

LITERATURE REVIEW

Under this section, the researchers reviewed literature relating to corporate social responsibility towards employees, customers, environment and financial performance.

Corporate Social Responsibility towards Employees and Financial Performance

Bacinello et al. (2020) studied the impact of corporate social responsibility on innovation and company performance. The results showed that corporate social responsibility towards employees could improve firm performance.

Basuony et al.(2014) examined the impact of corporate social responsibility on firm performance of a MENA country using cross sectional data from non-financial firms in Egypt. Panel data regression was used to analyze the data. The results showed that corporate social responsibility towards employees had a positive significant impact on firm performance.

Singh and Mistra (2021) evaluated the effect of corporate social responsibility on organizational performance of European multinational firms. The sample of the study was 340 responses collected from managers working in European multinational firms and the method of data analysis was hierarchical regression and theoretical model. The results showed that corporate social responsibility toward employees had a positive significant effect on financial performance of European multinational companies.

Corporate Social Responsibility towards Customers and Financial Performance

Yuan et al. (2020) studied the correlation between corporate social responsibility practices towards customers and financial performance. The results showed that corporate social responsibility towards customers had a positive significant impact on financial performance.

Wei et al. (2020) examined the effect of corporate social responsibility on firm performance of publicly traded firms in the United States. The study used unbalanced panel regression. The results revealed that corporate social responsibility towards customers had a positive significant effect on financial performance.

El-Moslemany and Etab (2017) evaluated the effect of corporate social responsibility disclosures on financial performance in the Egyptian banking industry from 2008 to 2011. The source of data was secondary and the technique of data analysis was multiple regressions. The results showed corporate social responsibility towards customers had no significant effect on financial performance of Egyptian banking sector.

Magbool and Zameer (2018) studied the impact of corporate social responsibility on financial performance of Indian banks from 2007- 2016. The sample size of the study was 28 Indian banks while the source of data was secondary. The study used panel data regression to analyze the data. The findings revealed that corporate social responsibility towards customers had a positive significant impact on financial performance of Indian banks.

Corporate Social Responsibility towards Environment and Financial Performance

Sameer (2021) examined the effect of corporate social responsibility on financial performance of Maldives public firms from 2014-2018. The study used judgmental sampling and multiple regression techniques. The

findings revealed that corporate social responsibility towards environment had a positive significant effect on financial performance.

Giannarakis et al., (2016) assessed the impact of corporate social responsibility on financial performance of United States companies from 2009 to 2013. The technique of data analysis was multiple regression. The results showed that corporate social responsibility towards environment had a positive significant impact on financial performance of United States companies.

Margaretha and Rachmawati (2016) studied the effect of corporate social responsibility on financial performance of company in Indonesia from 2010 to 213. The sample size of the study was primary sector companies quoted on Indonesia stock exchange while the panel data regression was used to analyze the data. The findings revealed that corporate social responsibility towards environment had a positive significant effect on financial performance proxy by ROA but corporate social responsibility had a negative significant effect on financial performance proxy by Tobin's Q.

Theoretical Framework

Under this section, the researchers reviewed two theories of corporate social responsibility.

(i) Social Identity Theory:

Tajfel and Turner (1986) propounded social identity theory. The theory provides a framework for explaining intergroup behavior and intergroup communication based on the inherent value human beings place on social group memberships and their desire to view their specific social groups in a positive light. The theory has substantial practical importance. It is used to evaluate vital business issues (Scheepers & Ellemers, 2019).

Stakeholder Theory:

Freeman (1984) propounded stakeholder theory. The theory promotes a practical, efficient, effective and ethical way to run businesses in a highly complex and turbulent environment. The theory stated that businesses should treat all stakeholders as customers as doing so increases commodity that is in shortest supply in most business ecosystems. Stakeholder theory emphases the interconnected relationship between a company and its communities, investors, employees, suppliers and customers.

METHODOLOGY

This study reviewed existing studies on effect of corporate social responsibility on financial performance of some listed firms in developed and developing countries from 1989 to 2022. The corporate social responsibility dimensions reviewed in this study were employees, customers and environment. The study used existing studies on corporate social responsibility and financial performance as sources of data.

DISCUSSIONS OF THE REVIEWED STUDIES

This study reviewed the existing studies on the effect of corporate social responsibility dimensions (employees, customers, and environment) on financial performance of some listed firms in developed and developing countries. It could be established according to the studies reviewed that when the employees were well trained, received competitive salaries and allowed to participate in decision making in an organization, there would be a tendency that the labor turnover would decrease and the financial performance would increase. The researchers discovered in the course of reviewing studies on the effect of

corporate social responsibility on firm performance that when customers were well treated by the organization, the customers would continue to buy goods from that firm which would enhance the financial performance and the company that was environmental conscious would not be accused of causing damage to the environment thereby making itself attractive to stakeholders such as suppliers.

CONCLUSION

This study concludes based on the findings of the existing studies conducted on the effect of corporate social responsibility on financial performance that effective corporate social responsibility towards employees, customers; environment could increase the financial performance of listed firms in developed and developing countries.

RECOMMENDATIONS

The researchers therefore make the following recommendations based on the findings of this study:

(i) The management of listed firms in developed and developing countries should continue to train and retrain their employees, pay them competitive rates and involve them in their decision making. When employees are trained and retrained their productivity will increase and when they are paid competitive rate, it will reduce the labor turnover while their involvement in decision making gives them a sense of belonging thereby boosting their morale which will indirectly translate into higher financial performance.

(ii)The management should ensure that their products are of high quality and free from any form of contamination, train their employees on how to treat customers in polite manners. High quality product that is safe for use makes the customer to continue to buy that product. When a customer feels well treated by the company, they are motivated to continue to do business with that company and the resulting effect is higher financial performance.

(iii) The management should also ensure that firms should not cause damage to the environment in the course of carrying out their business activities in order to avoid lawsuits as no stakeholder will be comfortable in doing business with any firm that has a serious lawsuit.

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