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THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE FINANCIAL PERFORMANCE A SURVEY OF LITERATURE

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Abstract. Corporate Social Responsibility (CSR) refers to the policies of corporations to conduct their main activity in a way that is ethical and society friendly. Corporate financial performance (CFP) is an individual measure of how well a company can execute main activities and use items to generate profits over a certain period of time. The relationship between CSR & CFP is not clear, may there be a positive relation, negative, or no relationship between them. This paper is to review the diversified academic views on: 1) definition of CSR; 2) dimensions of CSR; 3) measurement of CSR; 4) the relationship between CSR & CFP.

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INTRODUCTION

The concept of Corporate Social Responsibility (CSR) has become a crucial issue and grown effectively among companies. Moreover, it has to do with certain factors; namely: Employees, ethics, natural environment, and society, to form and compose an important part of the company's responsible behavior. Furthermore, the appearance of business cannot be separated from ethical and social responsibility issues (Lindrawati & Budianto, 2008).

According to Dhaliwal, Li, Tsang and Yang, (2011); McWilliams, Siegel and Wright, (2006), CSR can change the company's reputation to a better level. Moreover, it can improve the confidence of investors, customers, shareholder, and stakeholder as a whole, and it can increase the employees' ability to work and spend more effort and dedication.

It is worth mentioning that a huge bulk of recent studies is paying attention to study the relationship between CSR and CFP such as (Aras, Aybars & Kutlu, 2008; Weshah, Dahiyat, Awwad & Hajjat, 2012; Fernita, Paramita, Restuti & Nugroho, 2014).

According to Tang, Hull and Rothenberg (2011), the relationship between CSR & CFP has been argued over decades, but the results are not the same and there is no clear relationship between them. So there are many modifications conducted to improve the modeling of this relationship. Because the relationship between CSR & CFP is complex, controversial and inconclusive, the door is still open to conduct further researches on this topic (Weshah et al., 2012; Moenna, 2014; Santoso & Feliana, 2014).

Definition of CSR

The subject of CSR has been studied by many researchers in several sectors such as banks, insurance, industry, etc. There are many definitions of CSR by many researchers in different fields because there is no agreement by researchers for the global and comprehensively acceptable concept of CSR (Horrigan, 2010; Mullerat, 2011). This paper will show some of these definitions regarding CSR.

Carroll (1999) maintains that the first author identifying the idea of CSR is Bowen in 1953. He defines CSR in his book as "obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". Moreover, he has been known as the father of CSR.

Wood (1991) mentioned that CSR is "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships". In contrast, Frederick (1986) mentioned that CSR is subjective. In addition to this, McWilliamson, Lynch-Wood and Ramsay (2006) defined CSR as ambiguous.

Mohr, Webb and Harris (2001) defined CSR as "A company's commitment to minimizing or eliminating any harmful effects and maximizing its long run beneficial impact on society". Lastly, Ayub, Adeel, Muhammad and Hanan (2008) said that CSR means: "The company interesting social and environmental issues through the allocation of part of the activities or working capital in order to assist in the development of local

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communities and the development of human resources within the company and reduce the impact of the company's activities on the environment local".

Based on various definitions of CSR above, it can define the general concept of CSR as: the voluntary activities taken by a company to operate in an economic, social and environmentally sustainable manner.

Dimensions of CSR

Thompson and Zakaria (2004), classified CSR activities into six major areas: employees, energy, product, community involvement, human rights, and environment protection. Additionally, Cho, Lee and Pfeiffer, (2012) showed in their study that CSR covers multiple dimensions, such as environment dimension, employees' relation dimension, social dimension, etc. Companies are increasingly beginning to issue separate reports on their activities toward environment dimension, employees' relation dimension, and social dimension.

Jackson and Parsa, (2009) suggested model that represents five dimensions of CSR that must be taken into consideration to evaluate the firm's CSR initiatives. The dimensions are: Community involvement, treatment of its employees, environmental initiatives, fair corporate governance, and economic practices. In terms of community involvement, it should evaluate the company's philanthropic activities within its operating environment. Also it should evaluate the company on how it deals with its employees. The model also suggests that firms should be evaluated based on their contributions and efforts in order to keep environmental system and its investment in sustainable development toward environment. Also the firms should be evaluated based on their corporate governance and their economic activities.

Santoso and Filiana (2014) studied the relationship between CSR & CFP. The practices of CSR are measured by CSR disclosure index which was developed based on Global Reporting initiatives (GRI) framework. GRI framework was most widely used around the world. This framework includes three main dimensions of CSR activities which are: Economic performance, environment performance, and social performance. Also the social performance consists of four aspects, namely human rights, product, labor practice, and society.

MEASUREMENTS OF CSR

Wood (1991) defines CSR measurement as "a business organization's configuration of principles of social responsibility, process of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships".

According to Turker (2009), there are four main methods to measure CSR that are: 1) Reputation indices and databases that classify firms on the grounds of direction of CSR achievement. Examples of this method: the Fortune reputation index, and the Kinder, Lydenberg Domini (KLD) rating system. 2) Content analysis of corporate publications. 3) Single or multiple issue indicators. Examples of this method: pollution control performance, and Toxic Release Inventory (TRI). 4) Survey method by using questionnaire.

Examples of previous studies have been used with various methods to measure CSR. McGuire, Sundgren and Schneeweis (1988); Preston and O'Bannon (1994) used the Fortune reputation index. On the other hand, Waddock and Graves (1997) used in their study KLD method to measure CSR. In contrast, Gray, Javad, Power and Sinclair, (2001); Thompson & Zakaria, (2004); Becchetti, Ciciretti, Hasan and Kobeissi (2012) used content analysis in their study to measure CSR. Single or multiple issue method was used by (Griffin & Mahon, 1997). Lastly survey method was used by Aupperle, Carroll and Hatfield, (1985). Van Beurden and Gossling, (2008) said that reputation indices & databases and content analysis are most methods used in recent researches to measure CSR.

The Relationship between CSR & CFP

Slack Resource Theory, Stakeholder Theory, and Good Management Theory are main theories to explain the relationship between CSR & CFP. Under Good Management Theory and Stakeholder Theory, firms should have good engagement in corporate social responsibility in order to increase the level of financial performance. On the other hand, word CSR comes first. Based on these theories, CSR improves the satisfaction of different stakeholders and the firm's reputation, consequently leading to a better corporate financial performance. Slack Resource Theory suggests that CFP comes first. Based on this theory, a company should have a good financial performance to achieve good engagement in CSR because exercising CSR needs a lot of funds (Waddock & Graves, 1997; Dean, 1999; Ilias, Razak & Rahman, 2015).

Bragdon & Marlin (1972) are the first researchers who tried to empirically investigate the relationship between CSR & CFP (Margolis & Walsh, 2003). CSR is represented by environmental performance measured as the level of pollution.

Accounting-based performance such as (return on equity and return on capital) is used to measure financial performance. They found a significant positive relationship (Wagner, 2001; Tangpornpaiboon & Puttanapong, 2016).

Periodically researchers reviewed all studies conducted on this topic in order to create clear and comprehensive picture for

this relationship (Roman, Hayibor & Agle 1999; Margolis & Walsh, 2003; Orlitzky Schmidt & Rynes 2003; Allouche & Laroche, 2005; Van Beurden & Gossling, 2008).

According to Margolis & Walsh (2003) review, there are 127 studies conducted to investigate the relationship between CSR & CFP, in 22 of the 127 studies the CSR has been used as a dependent variable affected by CFP. In contrast the majority of studies used CSR as an independent variable and effect on CFP. Moreover there are 4 studies that examined the relationship in two directions. The results of these empirical studies have never been approved. Some studies found a positive relationship, some other studies have reached a negative relationship, while other studies found no relationship at all (Fauzi, Mahoney & Abdul Rahman, 2007).

The great majority of the reviewers said that most studies were conducted to investigate the relationship between CSR & CFP that found a positive relationship (Margolis & Walsh, 2003; Orlitzky et al., (2003); Van Beurden & Gossling, 2008). But the problem still exists, even if the majority of studies found positive results, because all of the previous studies about of this relationship are full of all kinds of problems that can bias the results (Griffin & Mahon, 1997).

Many researchers reached a positive relationship between CSR & CFP such as (Preston & O'Bannon's, 1994; Pava & Krausz, 1996; Waddock & Graves, 1997; AL-Shubiri, Al-Abedallat and Orabi (2011); Palmer, 2012; McPeak, 2012; AL-Shwiyat & AL-Rjob 2013; Fernita et al., 2014). Some of these studies used CFP as an independent variable such as (AL-Shubiri et al., 2011; AL-Shwiyat & AL-Rjob, 2013; Fernita et al., 2014). In contrast, studies conducted by (Pava & Krausz, 1996; Palmer, 2012; McPeak, 2012) used CSR as an independent variable and CFP as a dependent variable.

Preston and O'Bannon's (1994) and Waddock and Graves (1997) studied the relationship between CSR & CFP in two directions, the results of their studies are a positive relationship. Preston and O'Bannon's (1994) conducted their study to understand both the relationship between CSR & CFP and the direction of causality. They found a positive sign of the relationship between CSR & CFP, and the causal relationship is from CFP to CSR, in this case they support the slack resource theory.

Some researchers used accounting-based performance and market-based performance to measure CFP such as (Saleh, Zulkifli & Muhamad, 2010; Yin & Zhang, 2012; McPeak, 2012; Ducassy, 2013; Fernita et al., 2014). In contrast, there are researches that use only accounting-based measurement for CFP such as (Pava & Krausz, 1996; Fauzi et al., 2007; Choi et al., 2010; Aras, et al., 2008; Weshah et al., 2012; Ozcelik,

Ozturk and Gursakal 2014; Ahamed, Almsafir & Al-Smadi, 2014). Other studies such as (Alexander & Buchholz, 1978; Vance, S. C., 1975; Edmans, 2012) use only market-based performance to estimate CFP in their studies.

For measuring of CSR, the researchers use different strategies such as (Waddock & Graves, 1997; Berman et al., 1999; Tsoutsoura, 2004; Wang & Anderson, 2011; Palmer, 2012) use reputation index and database such as KLD to measure CSR. Other researchers use content analysis to measure CSR such as (Gray et al., 2001; Saleh et al., 2010; Aras et al., 2008; Salem, 2012; Becchetti et al., 2012). According to studies of Edmans (2012), McPeak (2012), Al-Moumany, AlMomani and Obeidat (2014), they used survey questionnaire to measure environment dimension, social dimension, and economic dimension of CSR. Other studies use single issue indicators such as (pollution control performance) to measure CSR such as (Spicer, 1978; Blackburn, Doran & Shrader, 1994). Some of the researchers study the relationship between the actual spending for the companies on CSR activities and CFP such as (AL-Shubiri et al., 2011; Weshah et al., 2012).

The major of researchers such as Edmans, (2012), Al-Shwiyat & AL-Rjob, (2013), use in their studies control variables such as (firm size, firm risk, advertising intensity, and industry performance) to investigate the relation between CSR & CFP, because control variables can affect the independent variables and dependent variables at the same time.

Friedman (1970), Moore (2001), Lopez, Garcia and Rodriguez, (2007), Iqbal, Ahmad, Basheer and Nadeem, (2012) found a negative relationship between CSR & CFP. Lopez et al., (2007) used variables that represent accounting-based performance to estimate CFP. And also used control variables such as (size, risk, and industry). They used the Dow Jones Sustainability Index (DJSI) to estimate CSR. On other hand, Iqbal et al., (2012) used in their study accounting-based and market-based performance measurement for CFP. They considered many dimensions of CSR such as corporate governance, business ethical principles, environmental compliance, social compliance, product integrity and stakeholder's dialogue. They adopted the same strategy followed by (Akpinar, Jiang, Gomez-Mejia, Berrone & Walls, 2008) to estimate many dimensions of CSR, with stakeholder weighted CSR index. Furthermore, they used the report developed by (Waheed, 2005) which explains the variables and criteria to compute the values for CSR index for each sector.

Some studies such as McWilliams and Siegel (2000), Fauzi et al. (2007), Nelling and Webb (2009), Aras et al. (2008), Ducassy (2013), Ozcelik et al. (2014), conduct papers to figure out the relationship between CSR & CFP, they reach the point

that there is no relationship between CSR & CFP. Aras et al. (2008) and Ozcelik et al. (2014) used CFP as an independent variable and studied its impact on CSR.

Ozcelik et al. (2014) examined the relationship between CSR and CFP in Istanbul financial market for 100 organizations between the years 2010 and 2012, in order to test his hypothesis that the firms issuing CSR reports have higher performance in terms of financial accounting ratios; he applies a logistic regression analysis. CSR is used as the dependent variable and financial performance measures, company size, company risk, and type of ownership as independent variables. He developed self-CSR index to estimate CSR activities. He found that there is a significant relationship between firm size and CSR, and didn't find any significant relationship between financial performance, risk, type of ownership and CSR.

According to Margolis & Walsh review (2003), the majority of studies on this topic investigate the relationship between CSR & CFP for short time period. In the same time, many researchers recommend to obtain a more valid measurement of outcomes for the relationship between CSR & CFP, the period of study should be longer at least 3 years (Weshah et al., 2012; Iqbal et al., 2012; Al-Qadi, 2012; Santoso & Feliana, 2014).

CONCLUSION

Based on literature reviews, the issue of social responsibility is not new, but there are many questions raised waiting for the answer by conducting new researches. Furthermore there is no general definition of CSR agreed upon by researchers. Accordingly, the understanding and definition of CSR vary from one researcher to another. Also previous researches employ different dimensions of CSR based on the nature of study. But the majority of previous studies used main dimensions for

CSR such as economic, environment, human rights, product, employees, and society.

There is an extended literature about the relationship between CSR and CFP and various aspects of this subject are investigated. There is no agreement among researchers in the form of the relationship between CSR & CFP. Most researchers confirm the existence of positive relationship between CSR and CFP. On the other side, there are studies reaching a negative relation or no relation between CSR & CSP. Accordingly, the outcomes of these studies are mixed.

Difference in results is due to several possible reasons including: the conceptual, operationalization, and methodological differences in the definitions of social and financial performance (Cochran & Wood, 1984; Watrick & Cochran, 1985). Hence, it is essential to choose appropriate method to measure CSR. Moreover when some of the studies use one method to measure CFP may lead to a difference in the results (Margolis & Walsh, 2003). So it should take both methods accounting and marketing to measure CFP and it should take more than one variable to represent each method. The majority of studies investigate the relationship between CSR & CFP in one direction (Margolis & Walsh, 2003). So it should study the relationship between CSR & CFP in both directions. In addition, McWilliams & Siegel (2000) assert that many studies don't take into account the importance of control variable when it examines the relationship because control variables can affect CSR & CFP. So it is essential to use control variable. Lastly, Small sample size and short period of study may cause mixed results (Weshah et al., 2012; Santoso & Feliana, 2014). So the new research should take enough sample size and longer period of study.

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– This article does not have any appendix. –