

## Determinants of corporate social responsibility on companies experience

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### ABSTRACT

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This study is organized the nexus between social responsibility and financial performance both theoretical examination and empirical evidence. It aims to explicate the prior view of corporate social responsibility and the contribution of stakeholder theory on corporate social responsibility approach on business activities. It may provide a portrait the importance of social responsibility in business and society. The integration between corporate social responsibility and financial performance will emerge on business operations in developed countries particularly in developing countries. Consequently, corporate social responsibility is not perceived as diminished interest shareholders parties as well as reduction business profit. So that the corporate social responsibility concept will be continually developed to answer the development of dynamic businesses.

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## 1. Introduction

Companies are involved on a turbulence the rapid economic global, politics, law, and society [1-3]. It apparently shows that companies should have a flexibility in order to survive even sustain in global competition. Companies have their primary obligation to achieve their own objective or the internalize goal from external activity. It is lined with the prior scholars which convinces that the primary of business responsibility only to meet shareholders' interest [4, 5]. On the contrary, Bowen [6] argued that business as a part of the community not only doing a nature orientation on gain profit but also gives an effort for increasing their beneficial role in society, such as reducing poverty, women empowerment, increasing health, child's education supporting [7,8]. Meanwhile, business operations indicate "the integration view" between business & society. On one hand,

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companies are doing their activities for maximizing profit and the other hand, they should consider with their activities towards society. Several experiences are faced by the company's operations, such as Nike, Rebook, and Gaps against labor practices and a failure happened with British Petroleum (BP) which it causes a fault work safety and damage environment [9, 10]. Another implication is related to issues of environment, security, human rights, and other social matters [11]. Therefore, the business existence should lead into mutual integration between business activities and societies [12, 13]. Meanwhile, scholars view that its' integration call as a corporate social responsibility approach hereinafter CSR. CSR concept had been proposed by Carroll [14, 15] in his seminal work to explicate how companies should build interrelated aspects into one approach. Other scholars following to develop the CSR concept in several aspects.

However, the mutual view of business operation could not leave without CSR activities which it may show synchronous with company goals for gaining profit as well as it reflects the value of serving quality. It can be seen as the harmony between heart and soul of business Levy [16]. Further, the CSR existence among scholars become debatable in order how CSR can be assumed as an active sources of competitive advantage [3]. Thus, the contention of researchers for justifying the relationship between CSR and financial performance are inconclusive paths [17-21]. Hence, the study to examine the nexus of CSR and financial performance need to explicate in order to reach this agreement.

## 2. Theoretical Path

Over the past century, there is an overwhelming increase interest in CSR concept. This evolving on CSR concept began start since 40 years among practitioners and academicians. To begin with the Classical View of disengagement of business with society: economic behavior is separate and distinct from other types of behavior, and business organizations are distinct from other organizations. The primary goal and motivation force business organization focus on profit. Friedman [4] stated that CSR of business is to increase its profit. In addition, Levitt's approach believed that the basic moral principle of the company is economizing value exclusively by managing resources [5]. On the contrary, Davis [22] convinced that business perception toward CSR can be examined it decision as well actions beyond the firm's economic or technical interest. The study is gathered by Carroll [15] emphasized that CSR as a total of four categories, namely: economic, legal, ethics, and philanthropic and those categories are depicted in figure 1 as a pyramid of CSR.



Fig. 1. Pyramid of CSR, Source: Adapted from Carroll [15]

The first piece is economic responsibilities depicts that company would generate profit as a foundation to develop and maintain its existence. The second component is the legal responsibility which is reflected by abiding to the applicable legal provision. The next component is an ethical responsibility. Each company has a responsibility to practice good and right things according to social norms, ethics, and value. The last component is philanthropic responsibilities. In summary, the pyramid of CSR explicates that each category is not mutually exclusive, but it can be seen which CSR's category suits to company activities [14, 15]. His view has been applied by scholars [23, 24] to draw what kinds of CSR are employed by companies. Furthermore, the development of CSR has been shifting to emphasis on business-society relations, particularly refer to the company contribution for social problem solving [25-27]. Those developments align with Freeman [12] which emphasized that CSR should attach with stakeholder theory. Stakeholder theory refers of view that companies not only engage their contract with shareholders, but also other parties which involve into contract with the company. The sort of parties also discuss by following scholars [28, 29]. While, Dahlsrud [30] contributed that business should concern with the issue related CSR definition which elaborated from several sources. In addition, CSR definition can be divided into 5 main dimensions which are the environmental dimension, the social dimension, the economic dimension, the stakeholder dimension, and the voluntariness dimension. Recently, in high tension of global competition force companies to develop an initiative approach "business case". Business case leads companies' activities to concern with aspect of CSR as well as fulfill social welfare meet [32]. Whereas, Carroll and Shabana [31] proposed "business case" in order to emphasize the importance of companies apply CSR into their activity for a long term as long as it contributes value addition to the corporate bottom line. Further, the Elkington's triple bottom line (TBL) is also contributing to stakeholder theory development. His proposed a triangulation model through TBL by engagements profit, people & planet [33]. Profit concern with the interest of a company's shareholders, which they expect to achieve a return from their investment on business activities. While profit aspect deals with internal and external parties around the companies, such as employee, customers, suppliers, creditors, competitors, communities, and government. Planet concerns of ecological environment where the companies operate and employ natural resources for its production. Hence, stakeholder theory should bring as an underpinning theory for new directions of research. Eventually, it will give a clear picture related to the relations between social and financial performance [34]. Financial performance approach hereinafter referred to as FP has been used to justify one aspect of business performance. FP and economic performance interchangeable terms used by scholars which it was defined as a company's financial viability, or extent to which company achieves its economic goals [35]. Various accounting and market-based measures have been used to proxy for corporate financial performance [19, 36]. Based on an accounting number is used return on equity (ROE), Profitability measurement, assets utilization such as return on assets and asset turnover and growth [37]. Market-based measurement which is applied frequently firm performance is Tobin's Q. It is defined as the ratio of the market value assets to their replacement value at the end of the most recent fiscal year [38, 39] developed a proxy that is much easier to obtain and still yields almost identical result. The market value of assets is clarified by the book values of assets (TA) minus the book value of equity (CE) minus deferred taxes (DefTax) plus the market value of common stocks (MV). Other market-based measurement Stock performance. Stock market participant determines a firm's stock price and therefore market value and based on their decisions on their perception of past, current and future stock returns [40]. Further, financial performance has additional measurement is a perpetual financial performance measurement which is found in Lou, Chau, Wang and Pan [41] meta-analysis studies. They reviewed from the current studies the perpetual financial performance measurement

is taken by survey respondents. Hence, the meta-analysis study suggested to explore more objective the financial performance measures as well as it offers direction on its measurement.

### **3. Empirical Evidence on the Association between CSR and Financial Performance**

The huge amount of research to strand the relations between CSR and FP both in developed and developing countries. As stakeholder's theory suggests that CSR activities is positively associated with financial performance [42], because it enhances the satisfaction of various stakeholders [12]. A number of arguments and rationales have been advanced as to why CSR has a positive impact on financial performance. Cochran and Wood [43] find a positive relationship between CSR and FP. Regarding to Orlitzky [19] study's examine a meta-analysis of 52 studies which obtain the relationship between social performance and FP have a positive relationship. Waddock and Graves [20] analyzed a total number of 469 companies with regression analysis. A weighted composite measure of CSR initiative, which is accounted by the accessible databases such as the Kinder, Lydenburg, Domini (KLD) index and financial performance by applied three accounting measures (return on equity, return on asset, and return on sales) were used for FP. Waddock and Graves [20] included size, risk, industry as control variables. Margolis and Walsh [17] have emphasized the developing model which involves control variables, test mediating mechanism and moderating factors, and the purpose causal association between CSR activities and FP. Both scholars result support a positive CSP-FP link. Study have been done to determine the relationship between CSR activities and financial performance by doing survey research design and apply questionnaire to 141 senior executive managers on Chinese firms indicated that CSR activities and CFP have significantly positive correlation. Next, the study tested the causal relationship and found that CSR and CFP vice-versa showed the positive relations [44]. Wang [45] proposed study on the relationship between social performance and financial-based brand equity. The motivation of study is to indicate the increase pressure on multinational companies to pay more attention on corporate social responsibility globally. The failure to meet that expectation may risk a global brand. Cross-sectional data of global brands to test the nature of the linkage between brand equity and social performance. The result indicated that corporate performance is positively associated with brand equity, brand equity influences future social performance only on the case of very large firms.

Conversely, Nelling and Webb [46] use the KLD index as the measure CRS and return assets (ROA) to measure FP. They find no evidence that CSR related to a firm's financial performance. Others study find more ambiguous or negative relationship [39, 47]. In consequence, it remains a question for more investigation the evidence on the association between CSP and FP particularly the experience of multinational companies in developing countries. Interestingly, Scholten [48] supports a positive and significant association between financial and social performance. However, this study highlights some additional variables which may affect financial and social performance analysis, such as R&D, advertising intensity, industry effect. Moreover, it remains to explore the wider dimensions which they interact with financial performance in a different approach as well as a panel analysis. Another empirical result suggests that it needs to do more research in more specific background-country and industry [49]. An investigation on the effects of the time on the CSR activities-FP relations have been highlighted by these researchers. These results of study observed the relationship as a dynamic process that will change over time [41].

#### 4. CSR and FP In Case of Sector Evidence

This paper tries to convey the development of the study between CSR and Financial performance, with the results arranged as follows. Firstly, it depicts the review of theory of CSR and financial performance. The next it performs research evidence which it draws the association between CSR and Financial Performance. Then, it elaborates the CSR and financial performance in several sectors and lastly, this study is completed with discussions part.

Several studies [50-52], Scholtens [48], Waddock and Graves [20] which have been done in developed countries examined the relations between CSR and CFP according to the sort sector of industries which is divided into 20 sorts of industries, such as: energy, chemical, financial, media, hotel, restaurant, and leisure, telecommunications, technology, and transportation. All sectors of industries which put into Fortune Most Admired, Dow Jones Global Index, and the KLD databases. Those databases provide social responsive action (social performance) from companies relating to employee relations, diversity, local community, the natural environment, and product safety/quality. The social action which applying at companies is reflected how companies do social responsibility based on the principle of social responsibility [14, 15, 53]. The result of studies which examined the relations between CSR and CFP through CSP indicated the variety of results. However, most of those studies emphasize the companies to do more responsible in environmental issue [50, 54]. While, Dowell, Heart, and Yeung [55] examined the positive relations between market valuation (CFP) and environmental global standard for manufacturing and mining firms for 5 year period investigation. Further, the study investigates in manufacturing and information industries found that CSR and CFP have a positive correlation significantly by applying survey research Hongchui and Xiayang [56]. Recently, Lu *et al.* [41] compiled empirical studies on the association between CSR/CSP and CFP during 10 year-period from 2002 to 2011. The result indicates the inconsistent evidence between CSR/CSP and CFP association across industries. In consequence, the challenge for future study may examine the linkage between CSR and CFP through CSP by comparison among the type of industries in developing countries. Thus, it is indicated that the relation between CSR and FP need to do more research in order to get a fit model for its relations.

#### 5. Discussion and Conclusion

Result of studies to investigate the association between social and financial performance suggest that there is the contribution of theory social and financial performance become clear for scholars as well as business to continue study the impact of social performance toward financial performance vice versa. Further, the previous studies remain unclear regarding to what factors influence between social and financial performance. The contradiction studies on social and financial performance will emerge several factors may contribute to explain better for its relations. Further, Scholars have called for research to understand the antecedents of CSR as well as its moderators and mediators in order to better understand this relationship and produce more conclusive findings [31, 57, 17]. Thus, it remains to evaluate both construct and methodology [54, 41, 58, 59].

In consequence, the study to examine the relationship between social and financial performance still important not only business to create a good company but also to assure their stakeholders.

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