

Corporate Social Responsibility and Corporate Financial Performance in Developing Countries

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บทคัดย่อ

บทความนี้มีวัตถุประสงค์เพื่อศึกษาความสัมพันธ์ระหว่างความรับผิดชอบต่อสังคมและผลการดำเนินงานของบริษัท โดยการทบทวนวรรณกรรม งานวิจัยที่เกี่ยวข้องในกลุ่มประเทศกำลังพัฒนาในทวีปเอเชีย ได้แก่ ประเทศจีน อินโดนีเซีย มาเลเซีย ปากีสถาน และไทย แม้ว่าการศึกษาด้านความสัมพันธ์ระหว่างความรับผิดชอบต่อสังคมและผลการดำเนินงานของธุรกิจเป็นประเด็นสำคัญที่มีการศึกษาในประเทศพัฒนาแล้วมานานหลายทศวรรษ แต่การศึกษารวมถึงผลการศึกษาเชิงประจักษ์เกี่ยวกับความสัมพันธ์ระหว่างความรับผิดชอบต่อสังคมและผลการดำเนินงานของธุรกิจในกลุ่มประเทศกำลังพัฒนามีค่อนข้างจำกัด เนื่องจากองค์ประกอบด้านความรับผิดชอบต่อสังคมในประเทศกำลังพัฒนามีความแตกต่างจากประเทศที่พัฒนาแล้ว บทความนี้จะเป็นหลักฐานเชิงประจักษ์ที่นำเสนอแนวคิดการวิจัยและแนวโน้มความสัมพันธ์ระหว่างความรับผิดชอบต่อสังคมและผลการดำเนินงานของธุรกิจในกลุ่มประเทศกำลังพัฒนา

คำสำคัญ: ความรับผิดชอบต่อสังคม, ผลประกอบการทางการเงิน, ประเทศกำลังพัฒนา

Abstract

This article aimed to review the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) by considering the existing literature on CSR and CFP in five developing countries in Asia that included China, Indonesia, Malaysia, Pakistan and Thailand. Although relationship between CSR and CFP has become a hot issue in developed countries for several decades, empirical literature on relationship between CSR and CFP in developing countries has been relatively limited. Since CSR components in developing countries were different from those in developed countries, this article would be an empirical evidence that presented conceptual research and trend of relationship between CSR and CFP in developing countries.

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Introduction

The corporate social responsibility (CSR) movement is now spreading all over the world and has become a hot topic in academic argument for decades. As the performance of business organizations is influenced by their strategies and operations in market and non-market environments, hence, there is an important debate about the extent to which company directors and managers should consider social and environmental factors in decision making. The business concept has changed from focusing on profit to doing sustainable business with a focus on social and environmental responsibility along with the creation of wealth for stakeholders. This concept is based on Elkington's triple bottom line (TBL) concept which broadens a business' focus on the financial profits to include social and environmental considerations.

CSR can be defined as “the obligations of business 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. (Bowen,1953) According to this definition, CSR is an organisation's commitment to a behaviour that leads to economic development and contributes to the welfare of its employees, local community, and society at large. (WBCSD,1999).

Nowadays, leading corporations have invested heavily in CSR activities and adopting CSR initiatives as part of their business policies and strategies, and reported annual details about CSR activities in order to obtain competitive advantages. Even though CSR is voluntary, when implementing CSR activities, high capital investment is required. The shareholder needs empirical evidence on how the CSR investment affects the corporate financial performance (CFP). Since corporate social responsibility is a voluntary initiative, engagement in CSR is prevalent across various types of business in different countries. A large number of methods and frameworks have been developed to explain the importance of CSR and the relationship between CSR and CFP, the majority is being developed in the developed countries.

In recent years, corporations in the developing countries are more aware of the CSR disclosure frameworks such as GRI, UNGC and ISO 26000. These frameworks intend to institutionalize CSR on a global level through the creations of norms, rules and procedures for CSR. However, since sustainability disclosure is still a voluntary practice in developing countries, transnational regulatory bodies face many challenges

in promoting CSR disclosure due to the lack of direct power to penetrate national law (Brammer, Jackson, & Matten, 2012; Aguilera, Rupp, Williams, & Ganapathi, 2007). This study focuses on relationship between CSR and CFP in five developing countries that included China, Indonesia, Malaysia, Pakistan and Thailand to represent countries with economic potential among developing countries. The contribution of article is to construct empirical evidence leading to suitable framework for analyzing and evaluating corporate social performance and examine the relationship between CSR disclosure and CFP in developing countries. The results show that the relationship between CSR and CFP is diversified and the relationship between CSR and CFP mainly exist in three direction: positive correlation, negative correlation and no correlation.

CSR and CFP in China

Chen & Wang (2011) studied corporate social responsibility and corporate financial performance in China. The research framework defined nine kinds of stakeholders (shareholders, managers, employees, creditors, suppliers, retailers, consumers, government and community) for CSR performance and set three variables: return on sales (ROS), return on assets (ROA), and growth rate of sales (GRS) to present CFP. The aim of research are the relationship between CSR and CFP in the two-year period (current period and next period) and relationship between the variation of CSR and CFP in two years. Data were obtained from self-designed “questionnaires of corporation social responsibility.”. Respondents were senior executives from 141 Guangdong enterprises of China. Data were analyzed through factor analysis, relative analysis and multi-regression via SPSS17.0 software. The results show that CSR activities can improve their CFP of the current year, have significant effects on their CFP of the next year, and vice versa. The variation of CSR and CFP can also significantly influence each other.

CSR and CFP in Indonesia

Fauzi & M.Idris (2009) researched on the relationship of CSR and financial performance from Indonesian companies. Data were collected by using questionnaire that include items representing variables in this study: CSR, CFP, business environment, strategy, organization structure, and control system. The respondents were 72 managers of state-owned companies (BUMN) and 148 private-owned companies via post and e-mail total 220 samplings. This study addressed the relationship between CSR and CFP derived from the strategic management domain and developing perceptual CSR measurement drawn from survey instrument of CSR containing seven dimensions

initially developed by KLD (KLD Research Incorporated, 2008) and MJRA (Jantzi Research In-corporated, 2008). The result showed that there was a positive relationship between CSR and CFP under the slack resource theory and under good management theory.

CSR and CFP in Malaysia

Wan Fauziah. et.al. (2016) studied the relationship between corporate social responsibility and financial performance: evidence from Malaysia. CSR index is an independent variable consist of four dimensions from the most accepted and recognized CSR measurement (Kinderman,2012): environment, community, marketplace, workplace. While CFP measurement are Earning per share (EPS) and return on equity (ROE). The samplings are from top 100 companies in Malaysia stock exchange (Bursa Malaysia). Data obtained from content analysis of annual reports and Bursa Malaysia website for 5 years (2009-2013). Analyses the relationship between CSR and CFP by using SPSS specifically Pearson's correlation. They found that most of the relationship between CSR and CFP were positive.

CSR and CFP in Pakistan

Tanveer Bagh, et.al (2017) studied the corporate social responsibility and firms' financial performance: evidence from financial sector of Pakistan. The main purpose is to investigate the impact of CSR on CFP of banking sector of Pakistan. Population was commercial banks listed with Pakistan stock exchange (PSX) and the sampling selected based upon market capitalization to choose 30 top ranked commercial banks. Data was secondary data for the period of 10 years from 2006-2015, collected from annual audited financial reports, the statistical division of state bank of Pakistan SBP and the website of PSX. CSR is independent variable measured by extraction the investment made in CSR: donation, education, health social welfare and other natural catastrophes. CFP is dependent variable consist of ROA, ROE, EPS. Analyzed data with pooled regression analysis to investigate the impact of CSR on CFP. The results shown that CSR has positive and significant impact on CFP: ROA, ROE & EPS.

CSR and CFP in Thailand

Janamrung & Issarawonrawanich. (2015) studied the association between corporate social responsibility index and performance of firms in industrial products and resources industries : empirical evidence from Thailand by examines 204 listed



companies in the Stock Exchange of Thailand (SET). Data for analyzed CSR Index were collected from annual reports and the annual registration forms (Form 56-1) in SET Market Analysis and Reporting Tool (SETSMART) during 2008-2009, while CFP data: ROA, ROE and accounting data were gathered from Datastream and SETSMART during 2010-2011. CSR Index were scored using the data from public information sources, which are readily accessible by investors. Firm will score “1” for meeting criterion, and receive score “0” for omitted a criterion. Then, the CSR index figures are calculated by dividing the total sum of actual scores of each category by the maximum total score of the corresponding category. The CSR index figure of each category is in the range of 0 to 1. The data were analyzed to investigate relationship between CSR and CFP in Thailand by descriptive statistics and Multiple linear regression analysis. The findings revealed that the firms receiving a higher CSR index score also have a higher return on assets (ROA). In addition, investment in CSR programs produces a positive outcome within two years, on average, after the investment. And no relationships are found between the CSR index and return on equity (ROE) and between the index and Tobin’Q.

Jitaree (2015) studied Corporate social responsibility disclosure and finance performance: evidence from Thailand. To investigate relationship between the level of CSR disclosures and Firm financial performance from 2009-2011 comprises 323 companies listed on the Stock Exchange of Thailand (SET). The CSR checklist covered 45 CSR activities of Thai companies developing from the published annual reports and SETSMART database and then analyzed and examined using content analysis. The considered variables are CSR index, financial performance measures included: ROA, NPM, EPS and TBQ. The considered control variables are firm size, firm leverage, company age and the percentage of independent directors on companies’ board. Three groups of data are examined separately by four regression models including cross-sectional model, the pooled ordinary least squares model, the random effects model and the fixed effect model. The results shown that the most disclosed CSR themes in Thailand are information regarding community and employee information. There are strong positive relationships between CSR and ROA, NPM and TBQ in all company. There are positive and significant relationship between CSR and ROA, NPM in the manufacturing group, while CSR has positive relationship with TBQ in non-manufacturing group. By the way, CSR is not related to EPS in all model.

Table 1 Summary of CSR and CFP in developing countries

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
China	141 Samplings Year 2007-2008	1.questionnaires 2.factor analysis 3.relative analysis 4.regression analysis	1.stakeholder 2.operator 3.employee 4.creditor 5.supplier 6.distributor 7.consumer 8.government 9.community	1.ROS 2.ROA 3.GRS	1.industry background 2.nature of property rights 3.phase of life cycle	1.companies' social responsibility activity can improve their financial performances of the current year 2. have significant effects on their financial performances of the next year, and vice versa 3. the variation of CSR and financial performance can also significantly influence each other
Indonesia	220 Samplings Year 2007	1.questionnaires 2.psychometric analysis 3.factor analysis 4.multiple regression analysis.	1.community and society 2.corporate governance 3.customer 4.employee 5.environment	1.growth dimension 2.profitability dimension 3.business environment hostility	1.company size 2.type of company (state-owned company or non state-owned company)	There is a positive relationship between CSR and CFP under the slack resource theory and under good management theory.

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
			6.human rights 7.controversial business	4.dynamism 5.complexity		
Malaysia	100 samplings Year 2009-2013	1.SPSS20 2.Pearson's correlation	1.environment 2.community 3.workplace 4.market place	1.EPS 2.ROE	n/a	Most of relationship between CSR activities and CFP were positive.
Pakistan	30 samplings Year 2006-2015	1.pooled regression models	Investment in corporate social responsibility 1.donation 2.education 3.health 4.social welfare 5.other natural catastrophes	1.ROA 2.ROE 3.EPS	n/a	1.CSR has positive and significant impact on CFP ; ROA, ROE, EPS 2. CSR phenomenon is an essential growth element and CFP-boosting tool in banking industry of Pakistan
Thailand	204 samplings	1.descriptive statistics	The CSR index is constructed	1.ROA 2ROE	n/a	1.Firms with a higher CSR index have higher ROA.

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
	Year 2008-2009	2. Multiple linear regression analysis	based on the KLD Rating Data The criteria cover three parts of CSR and consist of 25 items: 1. community (8) 2. employees (8) 3. environment (9)	3. Tobin's Q.		2. The positive outcome of investment in CSR programs can be realized within a relatively short-time period. 3. No relations between the CSR index and ROE and Tobin's Q
Thailand	323 samplings Year 2009-2011 Divided in 3 groups: manufacturing,	1. descriptive statistics 2. Content Analysis 3. Multiple linear regression analysis including cross-sectional model, the	The CSR index is constructed by Checklist The criteria cover three parts of CSR and consist of 45 items:	1. ROA 2. NPM 3. EPS 4. Tobin's Q.	1. firm size 2. firm leverage 3. company age 4. percentage of independent directors on companies' board.	1. Strong positive relationships between CSR and ROA, NPM and TBQ in all company. 2. Positive and significant relationship between CSR and ROA, NPM in the manufacturing group 3. CSR has positive relationship with TBQ in non-manufacturing group. 4. CSR is not related to EPS in all model.

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
	Non-manufacturing, Financial	pooled ordinary least squares model, the random effects model and the fixed effect model.	1.Environment (11) 2.Energy (6) 3.Employee/HR (16) 4.Community/social (7) 5.Product Responsibility (5)			

Conclusion

The empirical evidence from this article fulfills the understanding on relationship between CSR and CFP in developing countries. Most of CSR concepts and principles have been developed, based on the framework of developed countries but still remain a voluntary mechanism. However, there are momentous differences between developing and developed countries' context in implementing CSR practices influenced by many factors such as culture of business, natural business systems and geographical aspects. All of the research in each country are selected, data are collected from List of Stock Exchange 1-10 years and the sampling between 30-220. All of developing countries attempt to develop a framework regarding CSR activities. However, the understanding of CSR concepts and disclosure in developing countries is currently limited. The dimension of CSR index is considered as independent variable based on variety approach for measuring the dimensions of CSR disclosure but still in three main cluster: economic, social, environment base on triple bottom line concept. The dependent variables are almost from financial based measurement that include: Return on asset (ROA), Return on Equity (ROE), Earning per share (EPS) and Tobin'Q from market based measurement. The data were analyzed by using regression to explain relation between CSR and CFP. Most researches showed a positive relationship between CSR and CFP in. Based on the literature review, the relationship between CSR and CFP in five countries could be the study postulates. CSR phenomenon is considered as an essential growth element and CFP-boosting tool in developing country's economy. However, the context of research and variables varies from each country as a result, the research findings vary by types of business.

The review of the literature allowed us to propose a conceptual framework for measuring relationship between corporate social responsibility and corporate financial performance as figure 1.

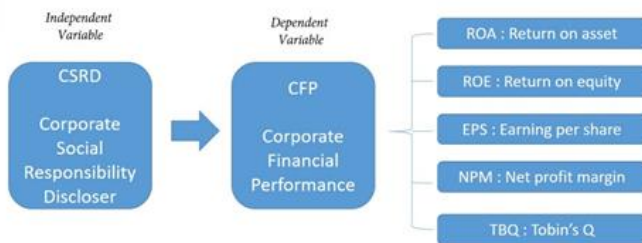


Figure 1 Conceptual framework of CSR and CFP

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