

Corporate Social Disclosure Quantity and Quality as Moderators between Corporate Social Responsibility Performance and Corporate Financial Performance

Yusuf Ibrahim Karaye^{1,2*}, Zuaini Ishak¹, Noriah Che-Adam¹

1. School of Accountancy, Universiti Utara Malaysia Sintok, 06010, Kedah Malaysia
2. Department of Accounting, Bauchi State University Gadau, Bauchi Nigeria

*E-mail of corresponding author: karaye2000@gmail.com

Abstract

Corporate social responsibility performance and corporate financial performance has been extensively examined without any consensus about the relationship. While some reported positive, others reported negative, neutral and even inconclusive findings on the relationship. These reasons make the topic an avenue for debates over a long period. This development call for the introduction of moderating variables to account for when and under what conditions is the relationship positive, negative or neutral/inconclusive. This study proposes to provide a framework that examines the association between CSR and CFP, promoting a potential moderator, CSR disclosure. Based on the literature reviewed, this paper proposes three variables which can be used to implement the framework within firm level. The variables are corporate social responsibility performance, corporate financial performance and corporate social disclosure.

Keywords: corporate social responsibility, corporate social disclosure, corporate financial performance, quality, quantity

1. Introduction

Numerous studies have been conducted to measure the association between corporate social responsibility performance (CSR) and corporate financial performance (CFP) with the aim of providing explanation about, or understanding of the relationship. Carroll, (1979, 1999), define CSR to mean conducting business in a way that is economically profitable, law abiding, ethical and socially supportive. The studies on the relationship between CSR and CFP produce mixed findings with positive, neutral, inconclusive and negative results (Beurden & Gössling, 2008; Boaventura, Silva, & Bandeira-de-Mello, 2012; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). Even though the relationship is producing mixed result, the majority of the studies reported a positive relationship i.e. the meta analysis of Margolis and Walsh (2003) reported from analysis of one hundred and nine studies (109) that 54 reported a positive, seven reported a negative (7/109), twenty eight reported a non-significant (28/109), and finally twenty reported combined result (20/109). In search for the possible reason for mixed findings, Rowley and Berman (2000) argued that the relationship between CSR and CFP exist but not under all conditions and he further his arguments by suggesting the existence of many potential factors mediating or moderating the relationship. They suggest a contingency framework for addressing the relationship. Many researchers emphasized the role of stakeholder relationship in the association between CSR and CFP, for example Munasinghe and Kumara (2013) explained that CSR offers companies a means by which they can manage and influence the attitude and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantages. Barnett (2007) argues that CSR leads to trustworthiness, which strengthens the relationship with important stakeholder, thereby reducing the transaction cost and leads to financial gain. Rowley and Berman (2000) posited that stakeholders' action to sanction, reward or punish a firm and the way the firm responded to the action affects the firm's revenue/cost which determines the relationship between CSR and CFP. The importance of stakeholders in the relationship between CSR and CFP is paramount but another important factor that shape the relationship most is the medium through which CSR activities are communicated to stakeholders. Corporate social disclosure (CSD) is the process of communicating the social and environmental effects of organization's economic action to particular interest groups within society and to society at large (Gray, 1996). According to Ali and Rizwan (2013) corporate social and environmental disclosure (CSED) means dissemination of information about a firms human resource related practices, community involvement activities and project, quality and safety of products and services and environmental contribution. Some of the reasons why firms involved in CSD are to build and maintain reputation (Adams, 2002; Navickait & Ruževi, 2007), to improve market share (Solomon & Lewis, 2002), reducing company cost of capital (Dhaliwal, Li, Tsang, & Yang, 2011), gaining competitive advantage (Cheah, Chan, & Chieng, 2007), enjoy tax benefits (Ahmad, 2006), gain employees commitment (Rettab, Brik, & Mellahi, 2009), and reduce cost and company risk (Sangle, 2010). Organization's communication with external parties (stakeholders) about its level of CSR may help build a positive image with customers, investors, bankers and suppliers (Fombrun & Shanley, 1990). They further argue that firms high in CSR may use CSD as part of

information signal upon which stakeholders base their assessment of corporate reputation under conditions of incomplete information (Fombrun & Shanley, 1990). Based on the above discussions, the authors argue that quantity of CSR disclosure and its quality can lead to variations in CFP. Therefore this paper aimed at proposing a framework on the moderating effect of CSD quantity and quality on the relationship between CSR and CFP. The remainder of the paper was organized as follows; next section presents the review of related literature and proposition development, followed by proposed framework of the study and finally the conclusion.

2. Literature review and proposition development

2.1 Corporate financial performance

Performance can be defined as achievement of organizational objectives (Bourguignon, 1995). It was also defined by Lorino, (1995) as anything which contribute to ameliorate value-cost couple and not only which contributes to cost decrease or value increase. According to Orlitzky, Schmidt and Rynes (2003), corporate financial performance has been basically measured in three forms: market, accounting and survey measurements. He further explained that the first represents the appreciation of the shareholders; the second shows the internal efficiency of the management and the last provides a subjective estimation of its performance. Boaventura, Silva and Bandeira-de-Mello (2012), in their meta analytical review on CSR-CFP relationship reported that return on asset (ROA), is the financial performance measure most widely used, followed by return on equity (ROE), sales growth, return on sales (ROS), contribution margin, Tobins Q, market share, risk of the firm, ROCE, operational profit, cash flow and finally earning per share (EPS).

2.2 Corporate social responsibility

Corporate social responsibility was defined by Bowen, (1953) as a method employed by corporations to pursue policies, decisions and actions for the social purpose and value. Another important definition was that of Carroll (1979), who defines CSR as conducting business in a way that is economically profitable, law abiding, ethical and socially supportive. Frooman, (1997), defined CSR as an action by a firm, on which the firm chooses to take, and substantially affects an identifiable social stakeholder's welfare. Empirical evidence outline some of the benefits accruable from CSR activities, some of which includes higher purchase intention from customers (Mohr & Webb, 2005), willingness to pay higher prices (Kang, Stein, Heo, & Lee, 2012) and product recognition (Parket & Eilbirt, 1975).

2.3 Corporate social responsibility performance and corporate financial performance

The relationship between CSR and CFP has been investigated for more than three decades in the developed countries such as US and UK with no consensus (Bayoud et al. 2012). Studies on the relationship found positive, negative and neutral relationship between CSR and CFP (Margolish & Walsh 2003). This makes it to be controversial relationship and an open area for further studies (Wijesinghe & Senaratne 2011). Friedman (1970) criticize the act of corporate social responsibility arguing that the one and only responsibility of business is to generate profit for its shareholders provided they act within the rules of the game. According to him CSR can only put the firm in a competitive disadvantage (Friedman, 1970). However Freeman (1984), argued that CSR leads to improvement in CFP therefore putting the firm in competitive advantage. CSR improves market opportunities and pricing premiums (Fombrun, Gardberg, & Barnett, 2000), it leads to reduction in transaction cost due to improved stakeholder relationship (Jones, 1995). Ultimately, this situation will result in higher net financial performance. The meta-analytical study of Orlitzky et al. (2003) and Margolis and Walsh (2003) for example reported positive relationship between CSR and CFP. Also the study of Boaventura et al. (2012), reported in their meta-analysis that majority of the articles reviewed, i.e. thirty eight reported positive, eleven reported negative and eighteen articles reported either neutral or inexistent relationship between CSR and CFP. Therefore this development leads to the conclusion that even though the relationship produces mixed findings, it is predominantly positive. Based on the above arguments the present study expects the relationship between CSR and CFP to be positive. Hence the following proposition was passed on:

P1 There is a positive relationship between CSR and CFP

2.4 Corporate social disclosure and corporate financial performance

There is evidence of a positive relationship between CSR disclosure and CFP. Most of the studies indicated that management aimed at creating and maintaining good relationship with stakeholder groups through CSR disclosure (Wibowo, 2012). Some studies highlighted the benefits obtainable from disclosing CSR information to the stakeholders to include, being an instrument for stakeholders to evaluate corporate social responsibility activities of the firm and a tool for increasing transparency and credibility of a firm to society (Cheung & Mak, 2010). CSR disclosure has the potentials of building or repairing corporate reputation of low CSR group and the potential of protecting favorable CSR brand of high CSR group if utilized strategically (Dawkins & Fraas, 2008). According to Balabanis, Phillips, and Lyall, (1998), satisfying stakeholders' explicit and implicit information demands, maintaining their support, while at the same time avoiding threats, would likely improve firms financial performance. CSR intended to improve stakeholder-related performance using effective measure through CSR disclosure, enables companies to manage external relationship, attracting stakeholders who prefers

to deal with socially responsible business and have the power to reward it (Waddock & Bodwell, 2004). Empirically, the study of Wijesinghe and Senaratne (2011) test the relationship between CSR disclosure and CFP. They reported a positive and significant relationship between CSR disclosure and both return on assets (ROA) and return on equity (ROE). The study of Yusoff, Mohamad and Darus (2013) also examine the relationship between CSR disclosure and CFP in Malaysia context. They found a significant positive relationship between CFP and CSR disclosure depth, breadth and concentration. According to Saleh, Zulkifli and Muhamad (2008), CSR disclosure has a contemporaneous impact on financial performance. They further explained that it was evident in the increase and decrease in CFP due to increase or decrease in CSR disclosure. Bayoud, Kavanagh and Slaughter (2012) study the relationship between CSR disclosure and organizational performance in Libya. They found a positive relationship between the levels of CSR disclosure and organizational performance in terms of financial performance and reputation. The above arguments proved a positive relationship between CSD and CFP. Therefore the present study expects the relationship between CSRP and CFP to be stronger when CSD is high. Thus the following proposition was advanced.

P2 The positive relationship between CSRP and CFP will be stronger when CSD is high

3. Proposed framework

The review of literature suggests a positive relationship between both CSR performance and disclosure on corporate financial performance (Boaventura et al. 2012; Margolish & Walsh 2003; Gosling & Bueding 2008; Orlitzky et al. 2003) for CSR and CFP relationship, and (Wijesinghe & Senaratne 2011; Yusoff et al. 2013; Saleh et al. 2008; Bayoud et al. 2012) for CSR disclosure and CFP relationship. The present study argued that corporations must communicate to the stakeholders their CSR activities for the stakeholders to reward the corporation. Therefore the firm that communicated to its stakeholders will be rewarded more than the firm that did not. In essence, this proves the moderating ability of CSR disclosure on the relationship between CSR and CFP. Therefore the proposed framework consists of three variables: CSR, CSD and CFP.



Figure 1. Research conceptual framework

4. Conclusions

The present study, which is based on an on-going project, sheds more light on the importance of CSR disclosure and its function in moderating the relationship between CSR and CFP. Without CSR disclosure, CSR activities and investment would have gone unnoticed by the stakeholders. Any CSR activity that was unnoticed by stakeholders was termed as agency loss. Therefore, this study provides a conceptual framework that proposes the moderating effect of CSR disclosure on the CSR-CFP relationship. Finally, if the proposed framework is validated, the findings will provide a significant contribution to the literature, managers and practitioners in making a better decision.

References

- Adams, C. A. (2002). Internal Organisational Factors Influencing Corporate Social and Ethical Reporting: Beyond Current Theorising. *Accounting, Auditing & Accountability Journal*, 15(2), 223–250. doi:10.1108/09513570210418905
- Ahmad, S. J. (2006). From Principles to Practice: Exploring Corporate Social Responsibility in Pakistan. *Journal of Corporate Citizenship*, (winter), 115–129.
- Ali, W., & Rizwan, M. (2013). Factors Influencing Corporate Social and Environmental Disclosure (CSED) Practices in The Developing Countries : An Institutional Theoretical Perspective. *International Journal of Asian Social Science*, 3(3), 590–609.
- Balabanis, G., Phillips, H. C., & Lyall, J. (1998). Corporate Social Responsibility and Economic Performance in the Top British Companies: Are they Linked? *European Business Review*, 98(1), 25–44. doi:10.1108/09555349810195529

- Barnett, M. L. (2007). Stakeholder Influence Capacity and the Variability of Financial Returns To Corporate Social Responsibility. *Academy of Management Review*, 32(3), 794–816. doi:10.5465/AMR.2007.25275520
- Bayoud, N. S., Kavanagh, M., & Slaughter, G. (2012). An Empirical Study of The Relationship Between Corporate Social Responsibility Disclosure and Organizational Performance: Evidence from Libya. *International Journal of Management and Marketing Research*, 5(3), 69–82.
- Beurden, P. Van, & Gössling, T. (2008). The Worth of Values: A Literature Review on the Relation Between Corporate Social and Financial Performance. *Journal of Business Ethics*, 82(2), 407–424. doi:10.1007/s10551-008-9894-x
- Boaventura, J. M. G., Silva, R. S. da, & Bandeira-de-Mello, R. (2012). Corporate Financial Performance and Corporate Social Performance : Methodological Development and the Theoretical Contribution of Empirical Studies *. *Revista Contabilidade & Financas*, 23(60), 232–245.
- Bourguignon, A. (1995). Peut-on Définir La Performance? *Revue Francais de Gestion*, (August).
- Bowen, H. R. (1953). *Social Responsibility of the Business Man* (3rd ed.). New York: Harper and Brothers.
- Carroll, A. B. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. *Academy of Management Review*. doi:10.5465/AMR.1979.4498296
- Carroll, A. B. (1999). Corporate Social Responsibility: Evolution of a Definitional Construct. *Business & Society*, 38(3), 268–295. doi:10.1177/000765039903800303
- Cheah, E. T., Chan, W. L., & Chieng, C. L. L. (2007). The Corporate Social Responsibility of Pharmaceutical Product Recalls: An Empirical Examination of U.S. and U.K. Markets. *Journal of Business Ethics*, 76(4), 427–449. doi:10.1007/s10551-006-9292-1
- Cheung, P., & Mak, W. (2010). *The Relation Between Corporate Social Responsibility Disclosure and Financial Performance : Evidence from the Commercial Banking Industry*. Simon Fraser University, Canada.
- Dawkins, C. E., & Fraas, J. W. (2008). An Exploratory Analysis of Corporate Social Responsibility and Disclosure. *Business & Society*, 52(2), 245–281. doi:10.1177/0007650308324047
- Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting. *The Accounting Review*, 86(1), 59–100. doi:10.2308/accr.00000005
- Fombrun, C. J., Gardberg, N. A., & Barnett, M. L. (2000). Opportunity Platforms and Safety Nets : Corporate Citizenship and Reputational Risk. *Business & Society Review*, 105(1), 85–106.
- Fombrun, C., & Shanley, M. (1990). What's in a Name? Reputation Building and Corporate Strategy. *Academy of Management Journal*, 33(2), 233–258. doi:10.2307/256324
- Freeman, R. (1984). *Strategic Management: A Stakeholder Perspective*. Boston, MA.: Pitman.
- Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits. *New York Times Magazine*, 122–126.
- Frooman, J. (1997). Socially Irresponsible and Illegal Behavior and Shareholder Wealth. *Business & Society*, 36(3), 221–249.
- Gray, R. H. (1996). *Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting*. (R. H. Gray, D. Owen, & C. Adams, Eds.) (Illustrate., pp. 1–332). New York: Prentice Hall International.
- Jones, T. M. (1995). Instrumental Stakeholder Theory : A Synthesis of Ethics and Economics. *Academy of Management Review*, 20(2), 404–437.
- Kang, K. H., Stein, L., Heo, C. Y., & Lee, S. (2012). Consumers' Willingness to Pay for Green Initiatives of the Hotel Industry. *International Journal of Hospitality Management*, 31(2), 564–572. doi:10.1016/j.ijhm.2011.08.001
- Lorino, P. (1995). Comptes et recits de la performance. In ' (Ed.), *Essai sur le pilotage de l' entreprise*. Paris: Les ed. d' organisation.
- Margolis, J. D., & Walsh, J. P. (2003). Misery Loves Companies: Rethinking Social Initiatives by Business. *Administrative Science Quarterly*, 48(2), 268. doi:10.2307/3556659
- Mohr, L. A., & Webb, D. J. (2005). The Effects of Corporate Social Responsibility and Price on Consumer Responses. *Journal of Consumer Affairs*, 39(1), 121–147. doi:10.1111/j.1745-6606.2005.00006.x
- Munasinghe, M. A. T. K., & Kumara, D. C. U. (2013). Impact of Disclosure of Corporate Social Responsibility on Corporate Financial Performances of Plantations Companies in Sri Lanka. *Journal of Emerging Trends in Economics and Management Sciences*, 4(3), 371–376.
- Navickait, V., & Ruževič, J. (2007). The Development of Socially Responsible Business in Lithuania and Italy : A Comparative Study. *Economic and Management*, 12, 1025–1033.
- Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate Social and Financial Performance: A Meta-Analysis. *Organization Studies*, 24(3), 403–441. doi:10.1177/0170840603024003910
- Parket, R. I., & Eilbirt, H. (1975). Social Responsibility: The Underlying Factors. *Business Horizons*, (August).
- Rettab, B., Brik, A. Ben, & Mellahi, K. (2009). A Study of Management Perceptions of the Impact of Corporate

- Social Responsibility on Organisational Performance in Emerging Economies: The Case of Dubai. *Journal of Business Ethics*, 89(3), 371–390. Retrieved from <http://dx.doi.org/10.1007/s10551-008-0005-9>
- Rowley, T., & Berman, S. (2000). A Brand New Brand of Corporate Social Performance. *Business & Society*, 39(4), 397–418. doi:10.1177/000765030003900404
- Saleh, M., Zulkifli, N., & Muhamad, R. (2008). An Empirical Examination of the Relationship between Corporate Social Responsibility Disclosure and Financial Performance in an Emerging Market, 1–22. Retrieved from 2008-vodppl.upm.edu.my
- Sangle, S. (2010). Empirical Analysis of Determinants of Adoption of Proactive Environmental Strategies in India. *Business Strategy and the Environment*, 19(July 2009), 51–63.
- Solomon, A., & Lewis, L. (2002). Incentives and Disincentives for Corporate Environmental Disclosure. *Business Strategy and the Environment*, 11, 154–169.
- Waddock, S., & Bodwell, C. (2004). Managing Responsibility: What Can be Learned from the Quality Movement? *California Management Review*, 47(1), 25–38.
- Wibowo, A. J. (2012). Interaction between Corporate Social Responsibility Disclosure and Profitability of Indonesia Firms. In *UMT 11th International Annual Symposium on Sustainability Science and Management*. (pp. 373–380). Terengganu, Malaysia.
- Wijesinghe, K. N., & Senaratne, S. (2011). Impact of Disclosure of Corporate Social Responsibility on Corporate Financial Performance in Bank, Finance and Insurance Sector in Sri Lanka, 1–18.
- Yusoff, H., Mohamad, S. S., & Darus, F. (2013). The Influence of CSR Disclosure Structure on Corporate Financial Performance: Evidence from Stakeholders' Perspectives. *Procedia Economics and Finance*, 7(Icebr), 213–220. doi:10.1016/S2212-5671(13)00237-2

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

