

Relationships of Corporate Social Responsibility With Perceived Financial Performance of Businesses: A Study

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The objectives of the present study are to put forth the concept of corporate social responsibility (CSR) in Turkey (in the Kayseri Organized Industrial Region) and the researches on this concept and the relationships between the concept and perceived financial performance. Research data were gathered from 100 accounting and finance managers in Kayseri. The sub-dimensions of CSR were gathered under four groups as business policies, environmental policies, market policies, and social policies, and the effects of these factors on the perceived financial performance of businesses were tested. It was concluded in this study that among the sub-dimensions of CSR, business policies had significant impacts on perceived financial performance.

Keywords: corporate social responsibility (CSR), finance, perceived performance, financial performance

Introduction

Globalization has significantly improved information technologies worldwide and brought together new competitive environment and new business rules. Thus, rather than businesses only having objectives, such as achieving maximum profits, they now should orient themselves towards new objectives by taking the benefits of society into consideration. Such a new world order has changed businesses from being corporate with solely economic purposes and converted them into corporate caring about social improvement and development, sustainable economy, the environment, human rights, and similar social issues. Such susceptibility ultimately results in the emergence of the concept of social responsibility.

The selection of making profit as the only objective to promote and sustain their existence or targeting development with the returns of the goods and services they produce is impossible issues under today's conditions for businesses. They are open systems and influenced by all the developments happening around them. Thus, they should be aware of the impossibility of growth and development independent of surrounding factors and should target development together with the society around them. The only way to realize such a development is to implement their incumbent social responsibilities.

Therefore, the concepts of corporate social responsibility (CSR), performance, efficiency, productivity, and sustainability have been studied in the business literature. CSR is a concept reminding businesses that their responsibilities are not limited only to economic responsibilities through producing goods and services, but they also have other responsibilities towards their employees, customers, stakeholders, competitors, and

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suppliers and, most of all, towards the society and environment in which they live. Particularly in an advanced technological and extremely competitive environment, CSR adds significant value to a business's image and prestige through exhibiting the differences between it and other businesses and improving employee and customer satisfaction.

In addition to the values added to business image and prestige by CSR, its effects on the perceived financial performance of a business are also a significant issue to be investigated. The effects of CSR, especially on perceived financial performance factors, such as increases in sales, market share and assets, liquidity and returns on turnover, assets, and equity, should also be determined.

In the present study, the level of CSR and its effects on perceived financial performance were investigated. The research has two sections, namely theoretical and practical. In the theoretical section, the concepts of "CSR" and "perceived financial performance" are discussed generally and the relevant literature is provided. In the practical section, a questionnaire was conducted with the accounting and finance managers of 100 businesses with 250 or more employees in Kayseri and questionnaire responses were analyzed.

Theoretical Framework and Literature

Parallel to the development and significance of the CSR concept, the relationships between CSR and financial performance have become highly attractive research topics in the finance area.

The expectations of societies from businesses concerning their social responsibilities started around the 1950s (Hanzaee & Rahpeima, 2013). In those years, businesses were expecting to grow excessively and to be powerful in economic life. They were also accused of being anti-competitive and anti-social. Then, laws and regulations were enacted to limit these behaviors and powers of businesses. For a business's customers, not only the price and quality of the goods and services provided are sufficient reasons to buy them, but also the voluntary contributions made by businesses producing the purchased goods and services to society and the environment are effective in customer decisions. Social responsibility is directly related to business decisions and the social impacts of such decisions on society. CSR covers the public, employees, customers, national, and international society and requires taking social targets into consideration while realizing economic targets. A good balance therefore should be established between economic and social targets (Ünsar & Alpertonga, 2013).

CSR was defined in the declarations of the European Union in 2001 as "a concept taken as basis in voluntary social and environmental activities of businesses and in their relations with stakeholders" (Doğan & Varinli, 2010, p. 5). There are several definitions of CSR, but they are all basically the same. CSR is the management of corporate economic activities without endangering the interests of all relevant parties (partners, employees, customers, and finally society). In another definition, CSR is defined as the responsibility undertaken to improve social welfare through voluntary activities and supports corporate sources (Erkman & Şahinoğlu, 2012). CSR is not only limited to issues surrounding the locality, but also covers global belonging, participation, and responsibility and it means a cultural attitude integrating such general issues with daily practices (Eren & Eker, 2012).

Businesses have four basic responsibilities: social, ethical, legal, and economical (Çelik, Dinçer, & Yılmaz, 2012). Correspondingly, they should work voluntarily towards the solution of social problems, should behave according to social norms and expectations, act in accordance with the law, and perform profitable and productive works.

CSR activities are subjected to classification at five different levels. Starting from the bottom level, these classes are defined as “irresponsibility, partially compatible, compatible, strategic, and social advocate”. At the bottom level, “irresponsibility” represents those businesses not undertaking responsibility; “partially compatible” represents businesses abiding by the legal regulations at a minimum level; “compatible” represents businesses implementing responsibility activities at a minimum level; “strategic” represents businesses implementing CSR activities just for financial performance; and “social advocate” represents businesses implementing philanthropic activities not seeking profit or benefit (Johnson, 2003).

Considering the studies performed to define the relationships between CSR and business performance, Bradgon and Marlin (1972), Moskowitz (1972), Frooman (1997), D’Arcimoles and Trebucq (2002), Orlitzky, Schmidt, and Rynes (2003), Margolis and Walsh (2003), Brine, Brown, and Hackett (2006), Makni, Francoeur, and Bellavance (2008), Arx and Ziegler (2008), Choi, Kwak, and Choe (2010), and Cardebat and Sirven (2010) carried out relevant studies. In Turkey, there are limited studies investigating the theoretical relationships between CSR and business performance. Among them, Aras, Aybars, and Kutlu (2010), Dinçer (2011), U. Alınçık, E. Alınçık, and Genç (2011), and Arsoy, Arabacı, and Çiftçioğlu (2012) are the most remarkable.

Businesses employ various performance measurement methods to measure their financial performances. Mostly objective-subjective (perceptual) or qualitative-quantitative methods are used but both are used together in some cases (Singh, 1986; Dess & Robinson, 1984; Alpkın, Ergün, Bulut, & Yılmaz, 2005). Perceived performance refers to measurement made by asking managers “how they perceived their performance with regard to various criteria when they compared themselves with the other businesses in the sector” to measure their qualitative and quantitative performance (Alpkın et al., 2005). Perceived performance may have some validity and reliability problems (Çelik & Karadal, 2007), but the difficulty involved in obtaining objective data to evaluate the performance of a business forces researchers to use perceived information from the participants.

Some researchers reported positive relationships between CSR and financial performance; some reported indirect relationships; and others indicated that no relationships existed between them. Waddock and Graves (1997) observed a positive relationship between CSR and financial performance and took active returns, equity returns, total sales, and total assets as the financial performance criteria. Preston and O’Bannon (1997) analyzed the financial data of 67 businesses in the USA using data covering the 1982-1992 period and reported a positive relationship between social responsibility and financial performance. P. A. Stanwick and S. D. Stanwick (1998) indicated relationships among the environmental policies of CSR and business size and return rates. Tsoutsoura (2004) carried out a study with 500 businesses and reported a positive relationship between CSR and financial performance. Montabon, Sroufe, and Narasimhan (2007) implemented a study with 45 businesses and observed again a positive relationship between the environmental policies of CSR and the financial performances of the businesses. Moneva, Rivera-Lirio, and Munoz-Torres (2007), Saleh, Zulkifli, and Muhamad (2011), Çelik et al. (2012), and Fettahoğlu (2013) also reported positive relationships between CSR and financial performance. Johnson (2003) reported indirect relationships between CSR and financial performance and indicated that illegal activities had negative impacts on returns and positive outcomes were reached when ethical policies were implemented. Velde, Vermeir, and Corten (2005) and Donatus and Jude (2008) observed indirect but positive relationships between CSR and financial performance. Diltz (1995), Sauer (1997), McWilliams and Siegel (2000), Kneader, Gray, Power, and Sinclair (2001), and Bauer, Koedijk, and Otten (2002) indicated that there were no relationships between CSR and financial performance. Aras et al. (2010) were not able to

determine a significant relationship between CSR and financial performance and indicated that significant relationships were limited to developed countries.

Research Methodology

Research Objectives, Model and Hypotheses

The basic objective of the present study is to determine the relationships among the business, environmental, market, and social policies of CSR and the perceived financial performance of businesses. A model was also created to investigate the effects of CSR and its sub-dimensions on perceived financial performance. This model covers four different criteria of CSR, namely business, environmental, market, and social policies. The perceived financial performance of the model was evaluated by taking increases in sales, market shares and assets, turnover returns, equity returns, liquidity conditions, decrease in debts, and general performance into consideration. The model is shown below in Figure 1.

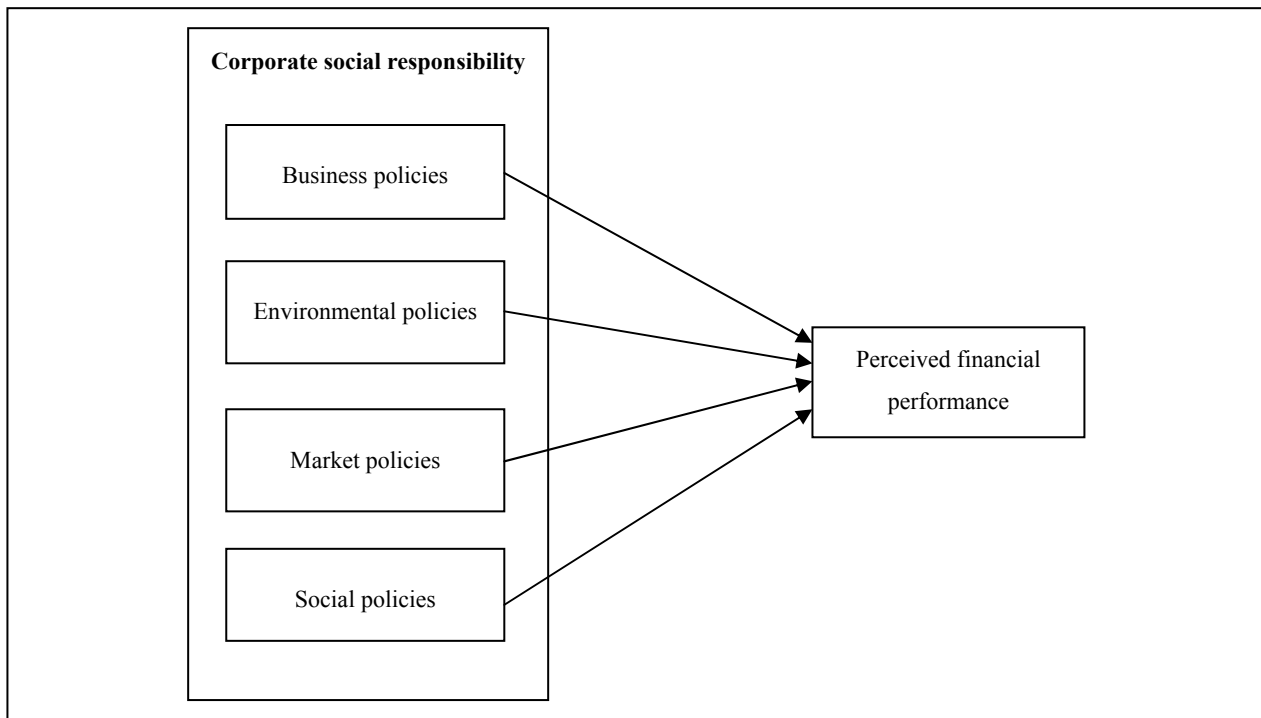


Figure 1. Research model.

Here, in this model, the sub-dimensions of CSR were taken as independent variables and perceived financial performance was taken as a dependent variable. There were four hypotheses about the relationships between CSR sub-dimensions and perceived financial performance. The hypotheses were as follows:

Hypothesis 1: There is a significant positive relationship between the business policies of CSR and perceived financial performance;

Hypothesis 2: There is a significant positive relationship between the environmental policies of CSR and perceived financial performance;

Hypothesis 3: There is a significant positive relationship between the market policies of CSR and perceived financial performance;

Hypothesis 4: There is a significant positive relationship between the social policies of CSR and perceived financial performance.

Universe and Sample

The current study was conducted in Kayseri. The research universe was composed of 100 large-size production facilities (with more than 250 employees) operating in the Kayseri Organized Industrial Region. Research data were gathered through questionnaires applied to the accounting and finance managers of previously selected businesses. The response return rate was 100% for questionnaires.

Data Collection and Analysis Methods

The questionnaire forms used to gather research data were composed of three sections. The first section contains seven questions about the businesses and managers, the second section contains 20 statements about the four dimensions of CSR, and the last section contains nine statements inquiring about the level of perceived performance. Two scales were employed in the present study.

CSR was taken as an independent variable and the first scale was created by using the scale developed by the European Commission Enterprise General Directorate. The scale was composed of 20 statements initially inquiring about CSR frequency. The Cronbach Alfa value, indicating the reliability of the scale, was found to be 0.829. A five-point Likert scale was used as follows: (1) never; (2) rarely; (3) sometimes; (4) usually; and (5) always. A second subjective scale able to measure qualitative and quantitative performance together, which was developed by Alpkan et al. (2005), was used to evaluate perceived performance. The scale was composed of nine statements. The Cronbach Alfa value of the scale was found to be 0.919. In statements about perceived financial performance, a five-point Likert scale was used as follows: (1) much lower than the competitors; (2) slightly lower than the competitors; (3) same as the competitors; (4) slightly higher than the competitors; and (5) much higher than the competitors. Statistical analyses were carried out by using SPSS software.

Results

Demographic Characteristics

The demographic characteristics for participating accounting and finance managers are provided in Table 1.

Table 1

Genders of Participating Accounting and Finance Managers

Gender	Frequency	Valid percentage (%)	Cumulative percentage (%)
Male	78	78	78
Female	22	22	100.0
Total	100	100.0	

Of the participating accounting and finance managers, 78% were male and 22% were female (Table 1).

The educational levels of participating accounting and finance managers are provided in Table 2.

Of the participating accounting and finance managers, 24% were high school graduates, 6% were vocational college graduates, 66% had a bachelor's degree, 3% had a graduate degree, and only 1% had a Ph.D. degree (Table 2).

With regard to demographic characteristics, accounting and finance managers were mostly male and university graduates.

Analysis of variance (ANOVA) and *t*-test were used to test the differences between demographic

characteristics and the factors affecting the perceived financial performance. Significant differences were not observed among the variables with regard to demographic characteristics.

Table 2

Educational Levels of Participating Accounting and Finance Managers

Level of education	Frequency	Valid percentage (%)	Cumulative percentage (%)
High school	24	24	24
Vocational college	6	6	30
Bachelor's degree	66	66	96
Graduate degree	3	3	99
Ph.D. degree	1	1	100.0
Total	100	100.0	

Correlation Table

Correlation results revealing the relationships between CSR policies and perceived financial performance are provided in Table 3.

Table 3

Correlation Matrix

	1	2	3	4	5
1. Perceived financial performance	1				
2. Business policies	0.271**	1			
3. Environmental policies	0.261**	0.459**	1		
4. Market policies	0.170	0.481**	0.495**	1	
5. Social policies	0.203*	0.496**	0.393**	0.415**	1

Note. * $p < 0.05$ and ** $p < 0.01$.

As can be seen from Table 3, there is a significant positive relationship between the dimensions of CSR and perceived financial performance. Such findings confirm the four hypotheses.

Results for Relationships Among Model Variables

When the effects of the business, environmental, market, and social policies of CSR on perceived financial performance were evaluated, it was observed that only the business policies had significant effects on perceived financial performance. The relevant results are provided in Tables 4 and 5.

Table 4

Results of Regression Analysis Carried Out to Determine the Effects of CSR on Perceived Financial Performance

	R	R^2	Adjusted R^2	Standard deviation
Perceived financial Performance	0.271	0.074	0.064	0.69

Notes. $p < 0.05$; dependent variable: perceived financial performance; and independent variable: CSR business policies.

Table 5

Coefficient Table of Regression Analysis Carried Out to Determine the Effects CSR on Perceived Financial Performance

Variable	Beta	t	Sig.
Business policies	0.271	5.486	0.000

Tables 4 and 5 revealed that the business policies of CSR had approximately a 7% effect on the perceived financial performance. It is shown in the model below (Figure 2).

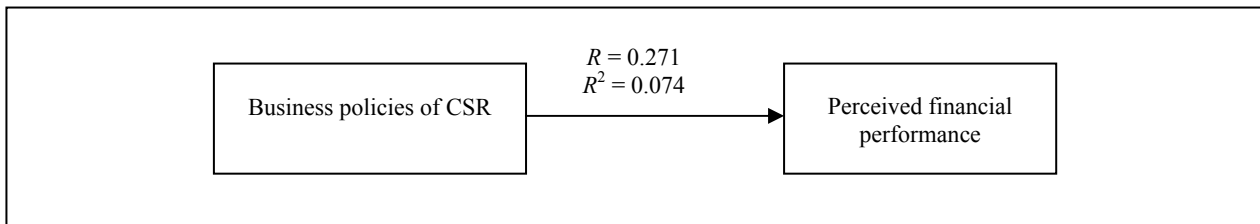


Figure 2. Effects of business policies of CSR on perceived financial performance.

The effects of the environmental, market, and social policies of CSR on perceived financial performance were at significantly low levels.

Conclusions

The concept of “CSR” comes to the forefront in the survival efforts of businesses. Social responsibility projects, put into action one by one, and the investments made in this issue have already reached significantly large sizes.

CSR has four policies, namely business, environmental, market, and social policies. Measurement of these policies and their impacts on perceived financial performance are significant issues to be investigated.

In the current study, the aim was to determine whether or not CSR and its sub-dimensions have any effects on perceived financial performance and, if so, the level of effect. As can be seen from the model above, the business policies of CSR had about a 7% effect on perceived financial performance. The effects of the environmental, market, and social policies of CSR on perceived financial performance were at significantly low levels.

The business policies of CSR cover the support given for the long-term career prospects and development of employees, taking measures to prevent any kind of discrimination in employment, to promote the participation of employees in management and their contributing to critical decisions, and to take measures to improve the health, security, and welfare of employees. A considerable increase is evident in the financial performance of businesses when they take such factors into consideration in their business policies.

The relationships between the sub-dimensions of CSR and perceived financial performance were investigated in the present study. In future studies, CSR measurements could be performed and the effects on business performance could be investigated from various aspects in other regions. However, as a final reminder, it is essential that businesses should not seek any profit from such responsibility activities and that they should primarily target the benefit of society through taking on the role of a social advocate.

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