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IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON ORGANIZATIONAL PROFITABILITY

Humaira Naz
Air University School of Management, Islamabad, Pakistan.

Muhammad Zulqarnain Safdar*
Department of Management Sciences, Abbottabad University of Science & Technology, Abbottabad, KP, Pakistan.

Muhammad Muddassar Khan
Department of Management Sciences, Abbottabad University of Science & Technology, Abbottabad, KP, Pakistan.

Kiran Mustafa
Department of Economics, Abbottabad University of Science & Technology, Abbottabad, KP, Pakistan.

Abdul Majid Awan
Department of Economics, Abdul Wali Khan University, Mardan, KP, Pakistan.

Khuram Shehzad
Department of Management Sciences, Abbottabad University of Science & Technology, Abbottabad, KP, Pakistan.

Corresponding Author: *

ABSTRACT

This paper tries to examine the relationship between corporate social responsibility and organizational profitability. Regression is used to measure the impact of corporate social responsibility on organizational profitability. The proxy used to measure profitability is return on assets. Secondary data was taken from cash out flows for purpose of corporate social responsibility. The results showed insignificant relation between return on equity and corporate social responsibility. The return on asset appears to be more closely related to the corporate social responsibility than return on equity. Study is only focusing only on Sugar mills listed in Pakistan stock exchange, however further research is needed at large scale to identify how it can be used as long-

term investment opportunity. This study will make it easier for organizations to take decision rather to pay for society in this fierce competition of globalization or not.

JEL Classifications: M14, F65, L25

Keywords: Corporate Social Responsibility; Business Ethics; Firms; Competitive Advantage; Company's Profitability, Innovation, Pakistan

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1. INTRODUCTION

Since a decade ago corporate social responsibility has turned out to be increasingly essential. Corporations began distributing corporate social responsibility reports around the world. No universal definition of CSR is there. As per (Clark, 2006) CSR is characterized as, "Achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment." Lane (2006) described that presently organizations need to build their ability to deal with their benefits and hazard to secure the disgrace of their brands. There are countless, little, and medium-sized organizations associated with corporate social responsibility from everywhere throughout the world.

The notion of responsibility obliges corporations to perform ethically. The relationship between business ethics and is frequently discussed. According to Murphy (2002) the concepts of corporate social responsibility are sometimes interpreted differently. Some organizations implement it as a strategy for brand image others may have different perspective.

Christensen (2007) claims that in the past companies conducted their businesses liberate, donations to selected individuals for specific time later on operating core business become their focus. Economic corporate social responsibility does not imply that the business is untrustworthy. In a moral sense it is characteristic to examine from a utility point of view. Concern for benefit does not reject organizations from considering the interests of all who have a stake in the organization.

Carroll (1991) discovered the CSR pyramid in his book Business Horizon, suggested four types of CSR that made up the whole CSR: First is Economic, second is Law, third is Ethics and last is philanthropic responsibilities. In his book he has also given explanation of those responsibilities as; reflecting the view that the legal obligations of ethics, which are mainly involved. Legal action is determined by the law makers. Ethical responsibilities are your standards in agreeing with what he appealed to them, because he was a satisfied customer, employees, member organizations and communities in the media industry, not just in the mix or about defending the moral rights of those interested. Philanthropic acts include active participation in activities and program support prosperity.

According to Porter and Kramer (2006) CSR is a commitment of the associations for the betterment of society. CSR has assumed exceptionally noteworthy position in our society because investors, public, customers, organizations all are concerned about it. There are several theories and approaches regarding this topic. Today industries are growing because of market opportunities there for corporate social responsibility has developing interest. CSR is based upon voluntarily participation of organization for the sake of society.

Formerly corporate social responsibility was taken as responsibilities of the corporation but now it is all about market opportunities and a business-wise approach to resolve the ecological and social problem. CSR has evolved into marketable assets of companies, in which profit-oriented managers and entrepreneurs are willing to invest. Organizations seek returns on these social investments (Nijhof & jeurissen, 2010).

While addressing the gathering on July 4, 2012 Jahangir Khan Tareen (Pakistani Politician and entrepreneur) said that “Social thinking and ensuring the welfare of stakeholders is the key to a successful as well as profitable business. My sugar mill business model, which integrates the happiness of sugar cane producers and business strategies via microcredit and technical support, has resulted significant increases in profitability and increment in production too”. The welfare initiatives have resulted profitability enhancement.

The basic idea is that corporations and societies depend on each other for their own well-being. Both cooperate with each other. CSR outcomes are not immediate, companies may realize it after building long term relation (Wallich & McGowan, 1970)

So, organizations implement corporate social responsibility for different perspectives it may be used for societal benefit or use as a strategy to achieve financial objectives. This examination will answer the accompanying exploration question, does corporate social responsibility affect organizational profits or not? The target of this investigation is to look at the connection between corporate social responsibility and organizational benefit. Corporate social responsibility strengthens company’s competitive position which enhances organizational profitability. The current research will help managers to understand how corporate social responsibility can maximize shareholder’s wealth even they are not doing harmful operations but still they can maintain CSR to enhance their productivity.

2. LITERATURE REVIEW

The issue of CSR has been argued since the 1950s. The examinations by Secchi (2007) and Lee (2008) detailed that the meaning of corporate social responsibility has been changing in significance and practice. The traditional perspective of corporate social responsibility was barely constrained to generosity and after that moved to the notice on business-society relations especially referring to the commitment that a firm accommodated in tackling of social issues.

As per Choi and Parsa (2006) CSR is a commitment of the associations for the improvement of society. Corporate social responsibility has assumed exceptionally noteworthy position in our society since financial specialists, clients, organizations all are worried about it. Today industries are growing because of market opportunities there for corporate social responsibility is interest developing concept based upon voluntarily participation of organization for the sake of society. In accordance with the 26000 standards, there are seven key CSR issues: "1. Environment 2. Work 3. Human rights 4. Organizational management 5. Fair business practices 6. Consumer issues 7. Social development to the environment. Wood stated “*the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities*” as cited in p.583 (Jones, Comfort, & Hillier, 2007) Now several businesses focus on CSR they are care for the society.

There are five key factors that influence the familiarity of stakeholders involved in CSR's growing commercial base, business, society, ethics, and environmental behavior. Investor pressure, peer pressure. A greater sense of direct pressure from stakeholders and social responsibility (Jones et al.,2007). When organizations care society, it results several positive outputs. Organizations build their image, for this purpose they use corporate social responsibility as advertisement tool. Scharf, Fernande and Kormann (2013) stated that Organizations mostly deal advertisement of product, sports, corporate social responsibility to achieve desired image of their business.

Corporate social responsibility implication results positive customer result, for example, devotion it has prompted the desire that such implications by and large have constructive outcomes for customer, but the satisfaction level of customers vary due to individual priorities. (McDonald & Thiele, 2008) Since being socially responsible includes costs, it ought to create benefits also with a specific end goal to be a reasonable business practice.

After getting through the previous research following variables were found;

- Organizational Profitability
- Corporate Social Responsibility
- total sales and total assets
- Risk (ratio of long-term debt to equity)

The independent variable was financial performance with CSR as the dependent variable.

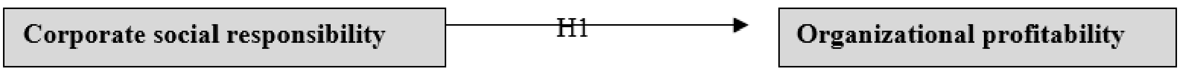
The control variables are;

- Size
- Risk

Organizational Profitability is dependent variable. It researches the impact of CSR on profitability. The Profitability of an organization is an economic driver. CSR result changes in cash flows.

Social investments results return (Nijhof & jeurissen, 2006) corporate social responsibility a lot of work done on CSR and its benefits (Brown and Dacin, 1997; Drumwright, 1994; Maignan and Ferrell, 2004; Murray and Vogel, 1997; Sen and Bhattacharya, 2001; Sen et al., 2006).

Scharf, Fernande and Kormann (2012) shown the CSR to reinforce the brand. Controlling of size, and industry have been suggested in past articles. In 2007 Jones, Comfort and Hillier have described the corporate social responsibility and business are interrelated. Fernande and Kormann (2013) described relation of CSR and desired business image.



In this study, the relationship between corporate social responsibility and financial performance is tested.

H1. Corporate social responsibility leads organizational profitability.

The sign may suggest negative or positive linkages. The disagreement for a negative relationship takes after the reasoning of those, i.e., Friedman (1970) and many other neoclassical business analysts. Then, no connection was expressed between corporate social responsibility and firm (e.g., Ullman, 1985)

Jo and Harjoto (2011) portrayed the positive effect for firms that take part in social activities. CSR additionally has positive significant association with profitability (Chang, K. et al., 2013 and Choi, Kwak and Choe, 2012). Positive relation exists b/w CSR and financial performance (Marcus, 1993). Good societal impacts lead profits, Marcus cited such firms. Positive social performance leads a firm's economic performance, this view describe demand from society for positive doings and a heavy economic performance (Cyert & March, 1963).

Business needs additional resources for social welfare, only heavy resources can tolerate heavy costs. Alexander and Buchholz (1978) explained that firms must be acknowledged and keep the ability to use different skills in terms of regular revenue which might be the result of finance sense.

3. DATA AND ESTIMATION TECHNIQUES

Concern about the financial performance of emerging economies is always the focus of stake holders. Investigating how these companies are working for social welfare is quite important aspect. In such emerging markets investors make excess returns mean while they don't take CSR in to account. Such aspects made it difficult to find CSR's relation with financial performance. The most important aspect covered is how we can measure CSR and financial performance. McGuire et al. (1988) reported 3 methods for measuring CSR, those were used in prior studies;

1. Corporate Policy's Evaluation, which is often conducted by experts. Abbott and Monsen (1979) stated that its accuracy depends upon level of expertise, an expert is equipped with.
2. Using annual reports and/or some other documents, which helps in content analysis. Krippendorff (2004, p. 18) stated that content analysis makes replicable as well as valid inferences to the contexts of their use. Weber (1990) discussed that content analysis is a set of some procedures that make valid inferences from text. Cochran and Wood (1984) expressed that subjectivity in variables selection and difference of reported CSR in annual reports and actual performance result major problem in this method.
3. Use proxy to measure CSR, controlling pollution is that proxy variable (McGuire et al., 1988). Measuring of CSR via this proxy may result biasness, as it focuses single dimension.

Results of these above stated methods may differ; data collection and sample reliability are quite Important aspects. CSR reported activities might be manipulated or misreported. The relationship between financial performance and CSR of listed sugar mills for the 2010 financial year to 2016. For the CSR measurement data was gathered from publicly available information such as amount of donations, charges on free health camps, cost incurred to aid flood affected areas or any other cost incurred for social welfare.

In literature the data of CSR was collected by conducting interviews to management of corporations and also by questionnaires to know how much they are socially responsible but for accurate data, it was taken directly from their financials that they have actually paid in monetary term. Size of the firm has also affected the amount of investment. "*Although measures of economic performance (such as net income, return on equity, or per share stock prices) are more objective, they are generally used to indicate only short-term economic performance"*. Robbins, S. P. & Coulter, Mary (2007). *Management, 9th edition, pp. 121, US: Pearson Prentice Hall Inc.*

The financial performance measures used were;

- Return on assets
- Return on equity

Cross sectional regression analysis, utilizing the ordinary least squares method, was used to test the hypothesis that CSR would improve the financial performance of an organization. The dependent variable was financial performance with corporate social responsibility used as the independent variable, controlling for size; total sales and total assets and risk; ratio of long-term debt to total assets). An aggregate 34 organizations were incorporated into the example 2010-2016 information was taken all were sugar factories. Add up to number of perceptions was 204. Board information has been utilized.

4. EMPIRICAL RESULTS

Mean value shows the central tendency of the data, the arithmetic average of the scores. Standard deviation is to measure variability, the square root of variance providing an index of variability in the distribution of scores return on equity has 66.73386 its values has more fluctuations as compared to other data.

Table 1 Pearson correlational Matrix

	Mean	S.D	1	2	3	4	5	6
1.Return on asstes	2.923	13.65						
2.Return on equity	8.633	65.734	.064					
3. Corporate social responsibility	4.854	2.141	.309**	.119				
4.Assets	14.175	1.177	.025	.639**	-.005			
5.Sales	14.052	1.688	.111	.576**	.161*	.798**		
6.Debt to equity	2.3011	6.653	.191**	.109	-.039	.235**	.189**	

Note. N = 204.*p < .05. **p < .01.

The table shows that correlation between sales and assets is .798** very strong positive relation, correlation between assets and is corporate social responsibility.639** is also strong positive, correlation between sales and CSR is .576** strong positive relation.

There is weak positive correlation between return on asset and return on equity is .309**, correlation between return on asset and corporate social responsibility is .119, which is also very weak positive relation in the same way correlation between debt to equity and assets is .235** which is weak positive relation.

Correlation between assets and return on equity is .025 which indicates very weak positive relation. Other results similar to it are; correlation between assets and return on asset is -.005, correlation between sales and return on equity is .111, correlation between sales and return on asset is .161*, correlation between debt to equity and return on equity is .191**, correlation between debt to equity ratio and corporate social responsibility is .109, correlation between debt to equity and LS is .189** which is also very weak positive relation.

There is very weak negative correlation between CSR and return on equity which is .064 and also in correlation between debt to equity and return on asset which is -.039. Two proxies were used to measure profitability return on asset and return on equity. Linear regression was run on SPSS to measure it.

Table 2 Determinants of corporate social responsibility impact on return on equity unstandardized coefficients Standardized coefficients

Model	β	SE	β	T value	Significance
(Constant)	65.836	64.703		1.018	.310
CSR	2.108	2.772	.069	.760	.448
ASSETS	-14.252	6.910	-.255	-2.063	.040
SALES	9.256	4.483	.238	2.064	.040
D/E	1.966	.699	. 199	2.813	.005

Dependent Variable: return on equity

Table.2 (a) represent link of ROE with corporate social responsibility, firm size, firm's riskiness. The results showed insignificant relation between return on equity and corporate social responsibility as R square value was 0.293 and adjusted R square was 0.175. There is significant positive relationship of return on equity with both, firm size and leverage.

Profitability is enhanced when firm size increase and when firm's riskiness decreases profitability increase.

Table 2 Determinants of corporate social responsibility impact on return on asset unstandardized coefficients Standardised coefficients

Model	β	SE	β	T value	Significance
(Constant)	21.775	13.230		1.646	.101
CSR	1.000	.567	.157	1.764	.079
ASSETS	-5.080	1.413	-.438	-3.596	.000
SALES	3.449	.917	.426	3.762	.000
D/E	-.070	.143	-.034	-.488	.626

Dependent Variable: return on asset

R square value was 0.345 and adjusted R square was 0.286. The return on asset appears to be more closely related to the CSR than return on equity of financial performance but still results shows relation between CSR and return on asset which is insignificant. Debt to equity ratio also shows insignificant negative relationship.

5. CONCLUSION

Extensive research on the value and legitimacy of social responsibility and to investigate whither profit maximization is sole concern for a business or not. By using empirical methods, researcher has tested the sign of the relationship between CSR and financial performance. The study used panel data covering a six years period, 2010-2016. The dataset included sugar factories of the Karachi stock exchange 100 record (Became PSE in 2016) . Results exhibit, sign of the relationship is sure, which supports those examinations which were found positive linkages already (Waddock and Graves, 1997; McGuire, et al., 1988; Aupperle, et al., 1985). Organizations those receive standards of corporate social responsibility are more straight forward and have less probabilities of disgrace and gift. They confront fewer fears to be reviewed for imperfect product offerings and to pay overwhelming fines for contaminating condition. Socially responsible corporations also bear less danger.

Study is only focusing on Sugar mills listed in Karachi stock exchange. A little variation of results from previous study is because of data non availability, Companies in Pakistan must create an interaction between company and its stakeholders because in developed countries the companies have shifted its objectives from profit maximization towards social welfare. But here in developing countries like Pakistan, companies are considered accountable to shareholders only. Stake holders face the consequences of company's decision.

International literature is growing quickly but the lack of CSR disclosure reporting in Pakistan becomes hurdle for us. Here some of the companies hide their CSR investments just because CSR disclosure is considered as Ria (show off) and their religion doesn't allow it. CSR index and sub-index should also be assigned to the companies. CSR disclosures must incorporate financial and non-financial aspects. Hence, it is necessary to create awareness to Pakistani organizations to maintain separate corporate social responsibility disclosures.

When data will be available then further study can be conducted to answer whither organizations can use Corporate Social Responsibility as an investment opportunity in long run or not? And we will also be able to examine the relation b/w structure of board of directors and company ownership on CSR disclosure.

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