THE STAKEHOLDERS ABILITY TO INFLUENCE THE RELATIONSHIP BETWEEN COMPANIES FINANCIAL PERFORMANCE (CFP) AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

LILIANA NICOLETA SIMIONESCU
DOCTORAL STUDENT, BUCHAREST UNIVERSITY OF ECONOMIC STUDIES, BUCHAREST, ROMANIA,
e-mail: liliana.simionescu@fin.ase.ro

Abstract
Many scholars, academicians and practitioners have intensively examined corporate social responsibility (CSR) and corporate financial performance (CFP) in the literature on CSR along the years. Mainstream of these studies suggested a positive relationship or negative, neutral as few others found and/or curvilinear relationships. Hence, this paper develops an understanding for a mediator instrument as regards the relationship between corporate social responsibility and corporate financial performance. The present paper proposes to provide a theoretical framework, which explains how and why, companies through their socially responsible activities leads to a certain company performance by promoting a potential mediator respectively stakeholder ability to influence (SIC). Companies with socially responsible activities accumulate satisfactory SAI stock enjoying an enhanced financial performance. As more the companies invest in CSR activities, the greater SAI stock became. Based on the literature reviewed, the present paper enriches the literature on CSR by proposing three variables that can be used to employ the framework at a company level. The variables are corporate social responsibility (CSR), stakeholder ability to influence (SAI) and corporate financial performance (CFP).

Key words: Corporate social responsibility, corporate financial performance, mediator, stakeholder ability to influence

JEL Classification: M14, O16, J52,

1. Introduction
Many authors, international organizations and practitioners have recognized and accepted the concept of corporate social responsibility (CSR) and its influence on companies’ performance. Caroll (1999) suggested that CSR is about conducting companies business not only to maximize profits, but also to obey the law, and to be ethical and social supportive as well. According to Munasinghe and Kumara (2013), companies adopting CSR improve their relation with key stakeholders; increase their trust and companies’ competitive advantage (Porter and Kramer, 2006). Moreover, CSR leads companies to increased credibility of stakeholders strengthening thus, the relationship company-stakeholders and vise-versa. In this manner, companies’ transaction cost is reduced, that leads to financial gain for the latter (Barnett, 2007). In addition, as underlined by many scholars, there is a positive relation between CSR and corporate financial performance (CFP) (Beurden and Gössling, 2008; Boaventura et. al., 2012; Margolis & Walsh, 2003). On the opposite side there are some scholars that consider the relationship between CSR and CFP as negative (Brammer et.al., 2006; Wright and Ferris, 1997), neutral (Fauzi and Idris, 2009; McWilliams and Siegel, 2000) or mixed (Archie and Shabana, 2010). In the literature on CSR, several authors tried to explain the achievements of different results as regard the relation between CSR and CFP. Some suggest that, the models employed by some authors in their studies do not capture the possible existence of variables like mediating and moderating (Cristof et. al., 2013; Rowley and Berman, 2000), while others underlined that mediating or situational variables would better improve the understanding of the relationship between CSR and CFP (Carroll and Shabana, 2010). Recent studies proved that there is a U shaped relation between CSR and CFP (Barnett and Solomon, 2012). Correspondingly, Barnett (2007) argued that change in companies financial earnings to social and environmental responsible practices are actually the firm capabilities for variance result, additionally continuing the development of social responsible practices based on stakeholders theory as a company strategic instrument, not only the CFP would improve but also the relationship with stakeholders enhance (Jones, 1995). The Stakeholder Ability to Influence (SAI) companies performance, as defined by Barnett (2007) represents “the ability of a firm to identify, act on and profit from opportunity to improve stakeholder relationships through CSR”.

The present study offers a theoretical framework where SAI explain how CSR practices turn into profit for firms to benefit. The rest of the paper is organized as follow: Section 2 presents the literature review on CSR and proposition development, than section 3 discusses the theoretical framework proposal and the last part presents the study conclusion.
2. Literature review

2.1. Corporate financial performance (CFP)

According to Bourguignon (1995), CFP is defined as the achievement of companies’ objectives or anything, which contribute to increased improvement of both value-cost couple without affecting each other (Lorino, 2004). Companies performance measure are a required condition in order to ensure their progress for assuring one’s entity’s development and a development which is not measured does not exist (Bilan and Roman, 2014). The CFP concept is subjective to many factors among them is also CSR. The Boaventura et al. (2012) meta-analysis, described that most of the studies used as measure for CFP return on assets (ROA) accounting for 48%, return on equity (ROE)-29%, sales growth -22%, return on sales (ROS) -16%, contribution margin -15%, Tobins Q -10%, etc. Thus, based on researchers primarily used measure in their studies for CFP, findings leads to the use of ROA.

2.2. Corporate social responsibility (CSR)

Many authors, corporations and institutions have defined CSR in a different ways because of its broader dimension nature. Though, Parliamentary Joint Committee (PJC) on corporations and financial services asserted that CSR emphasizes “the company considering, managing and balancing the economic, social and environmental impact of its activities” (PJC, 2006). CSR drivers for companies to adopt CSR are, as mentioned by Brine et. al., (2007), the customers’ patronage, government support, recruitment of skilled or talented employees, risk management, and cost reduction. CSR measures were revealed by different studies as follows. The first measure considered for CSR was the use of the companies issued sustainability report. Conversely, the authors criticized this sustainability report as it only shows the companies willingness and not the actual social action. The second measure for CSR was the use of indices such as KLD index and CSR investment fund criteria (Brine et al., 2007). Other authors developed their own measurement of CSR such as questionnaire (Aupperle et. al., 1985) and implemented or adjusted from others (Mulyadi and Anwar, 2012). In addition to CSR measures, are also considered the disclosure from the social activities given by the annual reports (Aras et. al., 2011; Munasinghe and Kumara, 2013) and the use of CSR measure as proxy variable for CSR (Clacher and Hagendorff, 2012).

2.3. CSR and CFP

The Business for Social Responsibility (BSR) refers at CSR as the “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment”. According to McWilliams and Siegel (2001) CSR represents the “actions that appear to further some social good, beyond the interest of the firm and that which is required by law”. Conversely, in Friedman’s (1970) view, the only responsibility a company has is to generate profit for its shareholders, to develop economic activities based on the rules of the operating environment, pay taxes and obey the law. Continuing its argument, the author underlines that spending resources on CSR activities will only drain away the firms’ financial resources taking thus, the company competitive advantage (Friedman, 1970). On the other hand, Freeman (1984) argued that through CSR activities companies gain competitive advantage, because CSR activities improve the relationship with their key stakeholders and in turn firms’ transaction cost will reduces (Jones, 1995), will increase market opportunities as well as the premium price (Fombrun et. al., 2000). In due course, these benefits will result in higher company financial performance (CFP). However, empirical studies found the relationship between CSR and CFP as being contradictory. Some studies found a negative relation (Brammer et. al., 2006), others neutral (Aupperle et al., 1985; Fauzi, 2009; Mulyadi and Anwar, 2012) and many a positive relationship between CSR and CFP (Flammer, 2013; Orlitzky et al., 2003; Tsoutsoura, 2004). For example, Margolish and Walsh (2003) meta-analysis show that 54 out of 109 (54/109) examined studies reported a positive relationship between CSR and CFP, while 7/109 reported a negative relationship and 28/109 reported a non-significant relationship and lastly 20/109 found combined result. In Boaventura et al., (2012) own meta-analysis was proved that 65.5% of the reviewed studies showed a positive relationship between CSR and CFP, and 19% report a negative relationship and 31% reported neutral or no relationship. In the general, with mixed result or not, the relationship between CSR and CFP is predominantly positive as explained by the above reviewed meta-analyses (Boaventura et al. 2012; Margolish and Walsh, 2003). Therefore, the subsequent proposition is advanced:

P1. There is a positive relationship between CSR and CFP

2.4. CSR and Stakeholder Ability to Influence (SAI)

The stakeholder theory refers that several stakeholders are important to a firm performance and development and thus, they should be include in companies’ decisions process. According to Freeman (1984), stakeholders are the following; company shareholders, investors, competitors, suppliers, customers, employees, government regulation,
unions, labor, management, educational, and financial institutions. The companies on a voluntary basis adopt CSR activities. Through CSR, companies improve their relationship with their key stakeholders (Barnett, 2007). As underlined by stakeholder theory, the more a company manages to connect with numerous groups of stakeholders that have certain interest in the firm, the more successful the company it will be over time (Freeman, 1984). Correspondingly, the instrumental stakeholder theory considers the organizations, as a connection of contracts and states is the firm’s capability to raise their competitive advantage by reducing the contracting cost (Jensen and Meckling, 1976; Jones, 1995). According to Wicks (et. al., 1999), companies that develop trusting relationship with their key stakeholders are able to minimize their contracting cost. In building and maintaining stakeholders trust, Barnett and Solomon (2012) argues that companies engaging in socially responsible activities and keep continuing these behaviors as part of their business strategies enhance not only the relation company-stakeholder but also the stakeholder influence. Thus, the above arguments as regard the influence of CSR activities improves stakeholder relationship lead the present paper to advance the following proposition:

P2. There is a positive relationship between CSR and SAI

2.5. SAI and CFP

Stakeholders are divided into internal (employees, management, internal shareholders and control organs) and external (customers, external shareholders, suppliers, investors, media, politicians, communities, public authorities, education, and NGOs) (Mitchell et al., 1997). Instrumental stakeholder theory, an essential part of stakeholder theory, underlines the importance of stakeholder management, namely the companies’ key stakeholders that can contribute to improved economic and financial performance of both society and business (Jones, 1995). Moreover, companies developing good relationship with their stakeholder may attract, retain and stimulate employees thus productivity increases and profitability enhances (Moskowitz, 1972). According to Hillman and Keim (2001), a good stakeholder management improves CFP by distinguishing the company’s efforts and supports in offering responsible goods and quality services increasing and/or inviting thus socially sensible customers or economic resources from responsible investors (Kapstein, 2001; Boaventura et al., 2012). Therefore, CSR through quality and safety products and services improve customers’ satisfaction hence leads to increased sales or reduces cost operation (Waddock and Graves, 1997). The reverse of companies acting irresponsible was found to be the primary reason of decreased CFP, lawsuits, affect the company bottom line, image and brand (Berman et. al., 1999). SAI represents “the ability of a firm to identify, act on and profit from an opportunity to improve stakeholder relationships through CSR” (Barnett, 2007). The stakeholders’ analyzes companies differently depending on their interest and relationship, thus accord them different credibility rewarding them accordingly (Barnett et al., 2012). Relating to the above arguments, this study makes the subsequent proposition:

P3. There is a positive relationship between SAI and CFP

2.6. SAI effect on the relationship between CSR and CFP

As mentioned above, a good management of companies key stakeholder groups’ relationship leads to a better CFP. Barnett and Solomon (2012), underlined that the negative or positive relationship between CSR and CFP is actually related to the firm ability to turn their CSR activities into valuable stakeholder relation. SAI increases proportional with companies’ engagements in social responsibility activities (Barnett, 2007). SAI is nothing else then the firm’s ability to distinguish, act and take advantage from the opportunity to enhance stakeholder relationships through CSR activities (Barnett, 2007). The U shape relationship between CSR and CFP is due to the price of socially responsible activities. However as companies spend more on CSR activities; they use more of firms’ resources, until when the relationship neutralizes and it turns out positive as SAI increases proportionally with CSR spending (Barnett & Solomon, 2012). Companies allocating high resources for CSR activities have accumulated satisfactory SAI stock taking into consideration their CSR history, enjoying thus from this benefit and a highest CFP reported. Companies spending moderate resources on CSR activities register lower CFP because their ability to build SAI stock was not adequate enough or did not targeted any stakeholder relationship improvement, turning thus the CSR investment into companies losses, miss linking between CSR and CFP (Barnett & Solomon, 2012). Through CSR activities stakeholder relationship is improved and in turns, a smooth and cooperative relationship results leading to increased CFP or reduce cost (Barnett, 2007). Based on revised literature, the present study underlines that SAI is actually a mediator between CSR and CFP. Therefore, the follow proposition is advances:

P4 Stakeholders have the ability to influence the relationship between CSR and CFP by playing a mediator role

3. Research framework proposal

As theorized by Barnett and Solomon (2012), for CSR to be linked with CFP, companies’ need to be able to convert CSR into SAI. The present study underlines that investing in CSR activities companies will only create SAI stock generating profits for long term leading thus to a sustainable development as result of their good stakeholder
management. Company responsible activities reflected in their products, services well-being and quality increase stakeholders’ loyalty and in turns stakeholders tend to pay back the companies’ in their various connections with the firm, leading the company to competitive advantage. Furthermore, investments in CSR activities that do not generate SAI will not create any return from CSR activities and thus the investment would only lead to financial losses. 

Illustrating this, SAI acts as a referee between CSR and CFP. Truly constant CSR activities which target the improvement of stakeholder relationship, results in the creation and accumulation of SAI, that leads later on to successful CFP. The research framework proposal consists of three variables: CSR, SAI and CFP (see Figure 1).

4. Conclusion

In conclusion, the present paper proposed a theoretical framework that can bring into the light the importance of CSR concept and bridges that can build in relation with stakeholder management having ensured a certain CFP. The main point is that companies should focus at creating, building and maintain SAI stock in conjunction with CSR practices by constantly improving their socially responsible activities that will turn into increased CFP. This study provided a conceptual theoretical framework proposing as main mediator the important effect of SAI on CSR-CFP relationship. The understanding of process through which CSR enhance CFP will offer a better understanding of this relationship and will guide the company managers to invest in specific CSR activities encouraging thus the relationship company-stakeholder to develop as an integral part of CSR process. Finally, if the proposed framework is to be validated through quantitative methods, the results will provide important contribution to the literature, and for managers and practitioners will become an important milestone when taking business decisions.

5. Acknowledgements

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

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