Influence of Corporate Social Responsibility (CSR) on Financial Efficiency of Company

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Abstract

Corporate social responsibility is becoming a significant activity to businesses. There are a lot of theoretical studies examining corporate social responsibility’s effect on company’s operations. This article is devoted to study of dependence between corporate social responsibility and company’s financial efficiency by means of statistical methods of analysis. The survey of this study is conducted on 10 large companies operating in oil and gas industry in Russia, between the years of 2009-2011. The obtained data from the base of the rating agency are analyzed through the Microsoft Office Excel statistical software. Analyses results revealed that that corporate social policy affects the financial efficiency of Russian oil-and-gas companies.

Keywords: corporate social responsibility, financial efficiency of company, stakeholder theory

1. Introduction

World community pays a lot of attention to corporate social responsibility today. Many companies conduct corporate social policy, realizing that ethical conduct of business opens new horizons for their further development. Spending funds on social and philanthropic programs companies reduce their current profit and create favorable social environment. Consequently holding to such stance promotes steady profit earnings in future and upholds their positions in terms of sustainable development of business. On the other hand Agency theory supposes that responsible business management primarily has positive impact on managers’ profile raising, while shareholders bear expenses of corporate social responsibility (Blagov, 2004). Accordingly it if to regard maximization of shareholder utility function as primary objective of the company’s activity management concept of corporate social responsibility becomes unnecessary, furthermore, it begins to do more harm than good (Blagov, 2006).

These disputes determined study of managerial nature of corporate social responsibility. In addition to social and environmental aspects of CSR attention started to be paid to managerial aspects, particularly the way by which the use of CSR instruments in purposes of harmonizing the interests of stakeholders and establishment of effective relations with them will allow the company to increase the efficiency of its activities, to maximize its value in the long term.

Companies are increasingly interested in how it is possible to measure the economic effect from implementation of CSR and what financial indicators are the subject of the impact of CSR. The main problem is the complexity in the analysis of the effect on company efficiency. There is a large number of diverse and contradictory studies of how social responsibility exercises influence over the company's financial performance. Nevertheless, common conclusions about the relation of CSR and performance results of the company haven’t been received yet: some works deduced that it is a strictly positive correlation among these factors. Other researches revealed exceptionally negative relation. Third authors do deny the existence of such dependence (Nagornov & Solntseva, 2007). It should also be noted that majority of studies may be disputable because of the difficulty in the search for the original data for the quantitative measurement of the economic effect of CSR.

In this paper we intend to define if implementation of corporate social policy actually impacts on financial efficiency of company. Besides that we will attempt to formulate recommendations relating to improvement of corporate governance and increase of financial efficiency of company.

Within the framework of corporate social responsibility, our study focuses on the notion that corporate social
responsibility influences on financial efficiency of the company. In this context, the study begins by a literature review of relevant studies of corporate social responsibility impact on company efficiency, then will go on to development of hypotheses. Research methodology, analyses results and research model will take place at second section. The results of the analyses will be discussed and recommendation will be provided for managers and academician at the last section.

2. Literature Review and Hypotheses

2.1 A Survey of Relevant Studies of Corporate Social Responsibility Impact on Company Efficiency

A range of studies are concentrated on analysis of social responsibility influence on efficiency of firm. Among them are works of Griffin and Mahon (Griffin & Mahon, 1997), Dowell, Hart, Yeung (Dowell, Hart, & Yeung, 2000), McWilliams, Siegel (McWilliams & Siegel, 2000), Orlitzky, Schmidt and Rynes (Orlitzky, Schmidt, & Rynes, 2003). They investigated price variations in a stock market and changes of accounting indicators of profitability. Becchetti, Giacomo, Pinnacchio (Becchetti, Giacomo, & Pinnacchio, 2005) investigate how inclusion in the Domini social index influences on corporate performance. Analysis of foreign academic work shows that in recent years the theory of stakeholders developed towards the importance of involving stakeholders in the long-term value creation of the company. It is a process in which it is important to establish long-term cooperation, and not get short-term profit. Naturally, it does not mean that profit doesn’t matter. Argumentation is based on the fact that in order to survive and get steady income, the company should make the most of its activities involve the different stakeholders, on which they depend.

In this regard, the company began to produce reports that reflect stakeholder engagement. For the first time the company began to publish social reporting in Europe in the 90s of the last century. In recent years, more and more widespread, standardized form of parity. Among the most popular we should underline standard AA1000 developed by the Institute of Social and Ethical Accountability in London, as well as management GRI, developed by the Global Reporting Initiative in Amsterdam. The main focus of these reports is interaction with stakeholders.

For example, the Standard AA1000, adopted in 1999, is based on the next three principles:

1) principle of materiality-report includes information about the success of sustainable development of the organization, the necessary stakeholders to make informed decisions and actions;
2) the principle of finality-estimation of the extent to which organization identifies and understands the material aspects of sustainable development;
3) principle of liability-assessment response to requests from organizations stakeholders.

The development of this standard was stimulated also by recognition that organizations need support in the development of social and ethical initiatives, as well as in building a progressive relationship with the expanded group of stakeholders. Standard is valued because it allows to point out the shortcomings and gaps in the company's social strategy, to assess the overall management of the company.

In the research issues of corporate responsibility focus is moved from stakeholders themselves to forms of interaction with them which companies use. Stakeholder expectations are constantly changing, and they need to be carefully and regularly monitored. In this case, properly lined up relationships with stakeholders can be considered as a source of competitive advantage.

Relying on the work Groenige and Hunt (1984), researchers Morsingand and Schultz (2006) consider three models of relationships with stakeholders: communication strategy (information strategy), the response strategy (response strategy) and engagement strategy (involvement strategy).

1) communication strategy. With this strategy, the relationship is one-sided: The company sends objective information about their activities to stakeholders. Such information model assumes that the stakeholders are powerful enough, they can support the organization as well as to harm it. Therefore, the company must inform about their good intentions, decisions and actions in order to secure the support of stakeholders. Thus, one of the main objectives of this strategy concludes effective transfer of companies’ decisions in the field of CSR.

2) Response Strategy. This strategy is based on a bilateral asymmetry communication model, in contrast to the two-way symmetric model in the case of engagement strategy. In both models, the information goes to the public as well as from it. The main difference between the models is that the asymmetric model suggests a lack of balance in the relations with the public, as the company does not change as a result of this mutually-interacting. Instead, it tries to change public attitudes and behavior. Department of Corporate Communications, in this case will held surveys, market research for the observation of where the company has improved or could improve
their actions in the field of CSR. Interaction is perceived in the form of feedback in the form of research results that the public will accept. Stakeholders are considered influential, but only passively react to the initiatives of the corporation. It turns out that the company in their efforts to understand the needs of stakeholders at risk of not achieving problem, as the company asks questions in the framework, implying in-previously defined answers that it wants to hear.

3) The strategy of engagement. This strategy implies a dialogue with stakeholders. As an organization, and stakeholders have a chance to convince your opponent to change. Ideally, the change for the better should both sides as a result of involvement in a symmetrical model of communication. Companies must not only seek to influence the stakeholders, but also subject to the influence of the one-who on their part. Engagement strategy is consistent with the other two discussed above in the question of influence of stakeholders, but differs in that finds information and surveys necessary, but not sufficient, involves systematic mutually beneficial dialogue between the company and its stakeholders.

To date, there is no empirical evidence which of these strategies is the most practiced. In their study, the authors have done analysis of the views of stakeholders on the communication companies in the field of CSR. The research is based on a survey of over 10,000 respondents stakeholders in three countries: Denmark, Sweden and Norway. The authors conclude that all three strategies are viable and useful in its own way, however, companies should strive to constantly improve the way communication with stakeholders in order to achieve a positive effect and maximize its value. Properly developed relations with stakeholders allows company to reduce the risks significantly.

As the result they concluded that CSR supports a move from the shareloders wealth to a welfare target of many stakeholders.

2.2 Russian Research Works of Social Responsibility Influence on Financial Performance of Company

Work of Ankudinov and Gizatullin (2008) can be distinguished among other studies. It contains analysis of CSR and financial efficiency interrelation on the base of domestic companies’ data using such indicators as NOPAT and net cash flow. The research came to a conclusion that interrelation between indicator of company operational efficiency and NOPAT exists, this confirmation satisfies a slack resources theory.

Our study was conducted within the framework of stakeholder theory, according to which, growth of corporate social responsibility level be accompanied by financial productivity increase of a company.

H 1: there is relationship between the level of corporate social responsibility and financial performance of the company.

3. Methodology

3.1 Research Goal

The objective of the study is to identify the relation between CSR and financial efficiency of the company, as well as the interpretation of results.

3.2 Sample and Data Collection

To accomplish this purpose we selected 10 large domestic companies from energy sector of the Russian Federation, actively implementing corporate social policy. In forming of the sampled population of the study there were used data from the following materials:

- financial data, annual social reports of the companies;
- database of rating Agency «Expert RA»

There were used statistical methods of economic analysis, specifically the correlation and regression analysis, in the study. The presence of relationship between the level of social responsibility of the company and its financial efficiency was determined on the basis of linear correlation coefficients. The specificity of this relationship is shown by means of a linear regression model according to the method of ordinary least squares (OLS) as well as statistical test data about significance of model.

3.3 Analyses and Results

To measure influence of corporate social responsibility on financial efficiency of the company, 3 indicators are adopted from Gizatullin A. V. (2007) which uses 11 criteria to measure the existence of enter relation among quality of corporate governance, social responsibility of the company and its financial efficiency. 1 indicator is adopted from work of Yarovinskaya M. S. (2011). These items with their descriptions can be seen on the Table 1. Descriptive statistics of survey sample can been seen on the Table.
Table 1. Description of variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin’s q</td>
<td>the ratio of the market capitalization of the company to the value of net assets</td>
</tr>
<tr>
<td>CSR/EBITDA</td>
<td>Operational indicator of the level of social responsibility of the company, calculated as the ratio of expenses on social programs (charity, environmental protection, support for the local community, encourage employees) to earnings before interest, taxes and amortization</td>
</tr>
<tr>
<td>Div</td>
<td>Dividend yield of the company's equity, which is calculated in as the ratio dividend per share to the market value of shares</td>
</tr>
<tr>
<td>Ln MCap</td>
<td>Natural logarithm of market capitalization indicator</td>
</tr>
</tbody>
</table>

Table 2. Descriptive statistics of survey sample

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin’s q</td>
<td>0.4152</td>
<td>9.3566</td>
<td>2.3013</td>
<td>1.9808</td>
</tr>
<tr>
<td>CSR/EBITDA</td>
<td>0.0039</td>
<td>0.8204</td>
<td>0.0907</td>
<td>0.1729</td>
</tr>
<tr>
<td>Div</td>
<td>0.0022</td>
<td>0.1796</td>
<td>0.0435</td>
<td>0.0468</td>
</tr>
<tr>
<td>Ln MCap</td>
<td>24.7167</td>
<td>28.569</td>
<td>26.9362</td>
<td>1.0515</td>
</tr>
</tbody>
</table>

As the statistics shows, the standard deviation of the financial indicators is generally insignificant; this means that the difference in values of financial indicators of the companies is low. Carrying out of the correlation analysis has allowed to reveal a close positive relationship between the policy of social responsibility and financial efficiency of the company, the matrix of pair correlation coefficients is shown on the Table 3.

Table 3. Correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>Tobin’s q</th>
<th>CSR/EBitda</th>
<th>Div</th>
<th>LnMCap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin’s q</td>
<td>1</td>
<td>0.731580771</td>
<td>-0.20741149</td>
<td>0.106167521</td>
</tr>
<tr>
<td>CSR/EBitda</td>
<td>0.731580771</td>
<td>1</td>
<td>-0.207054688</td>
<td>0.279600397</td>
</tr>
<tr>
<td>Div</td>
<td>-0.20741149</td>
<td>-0.207054688</td>
<td>1</td>
<td>-0.20884</td>
</tr>
<tr>
<td>LnMCap</td>
<td>0.106167521</td>
<td>0.279600397</td>
<td>-0.20884</td>
<td>1</td>
</tr>
</tbody>
</table>

Carrying out of the correlation analysis has allowed to reveal a close positive relationship between the policy of social responsibility and financial efficiency of the company. Also there was used regression analysis to appraise the regression model. It is represented on the Table 4.

Table 4. Regression analysis

<table>
<thead>
<tr>
<th></th>
<th>Coefficients</th>
<th>Standard error</th>
<th>t-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-met</td>
<td>7.7232</td>
<td>7.0509</td>
<td>1.0954</td>
</tr>
<tr>
<td>CSR/EBitda</td>
<td>8.5798</td>
<td>1.5875</td>
<td>5.4047</td>
</tr>
<tr>
<td>Div</td>
<td>-3.2716</td>
<td>5.7606</td>
<td>-0.5679</td>
</tr>
<tr>
<td>LnMCap</td>
<td>-0.2249</td>
<td>0.2612</td>
<td>-0.8611</td>
</tr>
</tbody>
</table>

Indicators of t-statistics of the variables Div and Ln MCap are less than the tabular value of t, this means that they are not linearly related to Tobin’s q, and their presence only distorts the real picture of the relationship Tobin's q and CSR/EBITDA.

Often strong verification of statistical significance of the explanatory variables isn’t necessary, sometimes it is enough to be restricted to carrying-out of simple comparative analysis: \(|t| = 5.4047 > 3\) therefore, the factor is considered to be highly significant, and error probability under sufficient number of observations is does not exceed 0.01 in this case.

From the analysis of variance from the Table 5 it follows that F observed (10.6474) is less than F critical
Thus, the equation of regression is significant in general.

The results of the regression analysis of the relationship between social responsibility and financial efficiency of companies are shown on the Table 6.

Table 5. Analysis of variance

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>The significance of F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>3</td>
<td>62.72732</td>
<td>20.90911</td>
<td>10.64741</td>
<td>0.0000955</td>
</tr>
<tr>
<td>Remainder</td>
<td>26</td>
<td>51.05814</td>
<td>1.963774</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>113.7855</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6. The results of the regression analysis of the relationship between social responsibility and financial efficiency of companies

<table>
<thead>
<tr>
<th>Indicator</th>
<th>a₀</th>
<th>CSR/EBITDA</th>
<th>Div</th>
<th>ln MCap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression coefficient</td>
<td>7.7232</td>
<td>8.5798</td>
<td>-3.2716</td>
<td>-0.2249</td>
</tr>
<tr>
<td>Determination coefficient R²</td>
<td>0.5513</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-test</td>
<td>10.6474</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significance</td>
<td>0.05</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson q</td>
<td>1.66</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Conclusions

As part of the study of CSR’s impact on the financial efficiency of Russian energy companies there were difficulties with sampling. Most probably, it is connected with the fact that the CSR policies began to develop in Russia recently. Due to this fact, still few companies can be called truly socially responsible. As domestic ratings show, leaders in the field of CSR are the companies of the fuel and energy sector, which determined the selection of the companies in this study.

As results of the study, according to many indicators presented model of dependency be-tween CSR and financial efficiency of the company is significant, formulated hypothesis has confirmed. The results of empirical study have approved that between indicators of corporate social policy, and financial efficiency of the company there is a close positive correlation, it means that corporate social policy affects the financial efficiency of Russian oil-and-gas companies. It should be appreciated that the industry sector specifics, associated with high production and reputational risks, also play important role; energy companies to some extent are forced to maintain a corporate social policy to compensate its employees, local communities, state for their risks. The very system of the corporate social policy in many companies is imperfect. In particular, information transparency of the social activity is heterogeneous: nonfinancial reports are prepared in a very small number of companies. Thus, the social activity of the Russian companies has mostly fragmented and unfocused nature.

Analysis of the practice of leading domestic companies shows that, despite a number of problems, which primarily have national character, in general, the development of CSR conforms to the worldwide trend. In Russian business people begin to understand the importance of a policy of social responsibility as part of the corporate strategy and as a tool for managing stakeholder relations.

It is worth noting that at the national level the development of corporate social responsibility encounter obstacles connected with heterogeneous development of the modern social sectors-government, business, nonprofit making institutions and lack of effective system of their interaction. Government support of business social activity will allow introduce the concept of social responsibility, not only in large, but also average and small business. In turn, partnership relations between companies and non-commercial organizations with the purpose of harmonization of stakeholder interests will enhance the quality of corporate governance in companies and will contribute to their further sustainable development.

References


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