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Corporate Benefits of Being Socially Responsible: Literature Review

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Abstract: Social responsibility of the corporates is highly debated topic in the field of academics over the last few years. Agreeing on the premise that CSR activities should be conducted on selfless motive however previous studies have reported that CSR provides multiple benefits to the corporates as well. So, CSR should be seen as a win-win situation. In this study authors attempt to explain various benefits that corporates reap if they are more involved in socially responsible activities on the basis of the existence of various previous research. It summarizes the benefits corporates derive from CSR which can be seen as motivation from the management perspective to get involved into more and more socially responsible activities.

Keywords: social responsibility, benefits of CSR, essence of CSR.

I. INTRODUCTION

Different scholars have, with time, changed the meaning of social responsibility. The key argument was that CSR largely focused on the business obligation thus overlooking action on performance. The social responsive movement therefore laid more emphasis on corporate activities, pro-action and implementing the social role. CSR had to address the obligations of business to the society for it to remain relevant. The main idea therefore is the economic purposes to the society. Khanifar et al. (2013), on the other hand, define CSR as the accountability of the stakeholders and the community which impact on corporate policies and practices. Matten and Moon (2004) define CSR as a concept through which a company integrates the social concerns with environmental concerns in the business strategy and in their interactions with the stakeholders on a voluntary basis. Although there are many definitions of CSR, all definitions are in consensus that CSR must be framed in a way that embraces the responsibilities of the business, for it to be acceptable. Khanifar et al. (2013) points out that there are four types of CSR: the legal, economic, ethical and philanthropic. Research has identified other aspects of CSR activities that have a significant impact on organisational performance.

There are number of studies that have analysed the impact of CSR on financial performance. One of these studies is that of Mintal et al. (2008) who studied the influence of CSR on organisational profitability regarding market added value and economic added value (EVA). The findings of this study came to the conclusion that there is a link between a company's engagement in CSR, reputation and overall organisational profitability. The same study also found out that there is little or no evidence at all to show that organisations that had a specified code of ethics increased their economic added value. In addition, Hussein et al. (2012) examined the connection between CSR and economic performance by studying both the positive and negative CSR activities on financial performance of the hotel industry. The findings of this study concluded that CSR activities contribute to organisational productivity by offering critical information on the impact of CSR activities on financial performance. Also, Emilson (2012) established a correlation between engagement in CSR and profitability. This study confirms that CSR has a positive impact on organisational performance. The study by Skare and Golja (2012) equally investigate the

connection between financial performance and CSR and arrives at the conclusion that firm tend to have increased financial performance when compared to that the have less engagement in CSR.

II. CSR AND CORPORATE REPUTATION

One of the most important aspects of corporate reputation is stakeholder groups' perceptions about the organisation's corporate social responsibility activities, their perceptions on how well they meet the stakeholders' social and environmental perceptions and values. In this context, CSR has become a key influencer on the perceptions of the stakeholders hence contributing towards maximising the earning potential of corporate reputation (Unerman, 2008). The current literature indicates that there is a positive correlation between CSR and corporate reputation. For instance, Husted and Allen (2007) found out that building stakeholder groups' awareness of products increases the reputation of the organisation. Bayoud & Kavanagh (2012) do agree that CSR reporting increases corporate reputation and financial performance with the ability to attract more foreign investors, increase employee commitment and customer satisfaction (Bayoud & Kavanagh, 2012). According to Husted & Allen (2007), good corporate reputation has an important role in value creation which is difficult to replace. Corporate reputation is a key competitive advantage in markets where product differentiation is difficult. Melo & Galan (2011) note that competitive advantage is strengthened through corporate social responsibility. The survey reports by Castaldo et al. (2009) show that customers are influenced by CSR activities of a company. In addition, it has been suggested by Park, Lee, & Kim (2014) that philanthropic and ethical CSR practices can develop and enhance customer beliefs that an organisation observes ethical business standards and that it cares about the wellbeing of the society. The latter ultimately contributes to increased company reputation. On the other hand, it has been noted that if customers are aware of the ethical implications of the behaviour of the organisation, they assure that the organisation will maintain high quality standards, maintain and improve organisational reputation (Lamberti & Lettieri, 2009).

There are many advantages of having a good reputation in a company. Studies such as that of Heal (2005) have shown that commitment to CSR activities improves organisational legitimacy. Some of the goals of CSR is to enhance the reputation of the company and make it appealing to the stakeholders. The studies relating to the impact of CSR on reducing the business risk began in the 1980s. Later on, other studies have emerged to confirm that corporate reputation is a tool for increasing competitive advantage. Heal (2005) argues that commitment to CSR minimises the conflicts between the diverse surroundings and considers that a good reputation has numerous advantages to offer. Branco and Rodrigues (2006) established that firms which demonstrated that firms that show that they effectively comply with CSR attract a positive reputation. In addition, non-compliance with CSR activities can be a serious risk to the business. The latter is backed by the fact that most of the current organisations are faced with immense criticism from the public due to the effects of social media. There are two pre-conditions for CSR that can impact on their reputation. The first one lies in the ability to create and communicate the strategy to the media and stakeholders appropriately. The second one is that media has to give a company that is engaged in CSR activities to help it create public goodwill.

III. CSR AND FIRM PERFORMANCE

In some instances, some other studies have shown that engagement in CSR largely contributes to increased competitiveness of the organisation. In the long run, the latter has a positive financial implication. The majority do not understand the relationship between CSR and financial performance (Angelidis, Massetti and Magee-Egan, 2008). However, despite the fact that some studies have established a connection between the two, the link is yet to be fully understood or justified. It is argued that having a good reputation has a strategic value for a firm. According to Neville, Bell and Menguc (2005), having greater competitive advantage enhances better returns. Furthermore, a company whose assets are difficult to imitate has superior financial performance. The notions that CSR has a positive correlation with financial performance of an organisation shows that the explicit costs of an organisation are hidden costs induced by the stakeholders. As a result, this argument is raised from the perspective of avoiding costs associated with the key stakeholders while at the same time finding ways of trying to satisfy them.

Engaging in CSR lead to increase cost of competitiveness. Some of the stakeholder's view CSR as a symbol of reputation and the reputation of an organisation can be improved by activities that offer support to the community. In addition, it is possible to turn a social problem into a long-term economic opportunity, human capacity, productivity capacity and well-paid jobs. The study by Neville, Bell and Menguc (2005) indicates that CSR has a positive impact on organisational performance and is significantly notable in both economic and environmental performance.

IV. CSR AND FINANCING

Many previous authors have argued that companies which are more socially responsible are in a position to easily attract finances from the market. They can raise capital whenever they want with ease. Thus, such companies rely more on equity capital than debt for financing their operations. Such companies' issues equity more frequently and in larger volumes. One such major study conducted by Pijourlet (2013) focussed on the CSR and its impact on choice between equity and debt. The study was based on the observations over 5859 firm years internationally for the time period 2005 to 2009. Results of the study indicates that firms with higher level of CSR activities enjoy low cost of equity capital and thus favours towards equity more for financing their projects. He empirically also shows the positive relation between CSR and equity issuance both in terms of quantity and frequency and less dependency of the firms on market conditions for financing their projects. Thus, results indicate the negative relationship between CSR and leverage.

One of the initial studies in this respect is Sharfman and Fernando (2008) was conducted with respect to impact of good environmental practices on the financing cost of the firm. The authors argued that reduction of risk of adverse environment leads to lowering of cost of equity capital and thus weighted average cost of capital. The study was empirically conducted on 267 US companies using various controlling measures. In Bauer and Hann (2010) an attempt was made to analyse the implication of credit risk on environmental management by corporates specifically for bond investors. It was empirically concluded that the firms with good environmental practices were levied with low cost of debt and on other hand firm with bad environmental practices were fined with low credit ratings and thus had to face high cost of debt.

In 2014 Girerd-Potin et al. pointed on the difference between legal CSR and Normative CSR. They pointed out that the CSR above legal requirements done on voluntary basis is known as normative CSR. Their study was based on the time period from 1993 to 2009 they show that increased level of social responsibility reduces the volatility of stock return and cost of equity and thus increases the value of the firm. Empirical study conducted by El Ghouli et al. (2011) argued that CSR – through good human resource policies, environmental practices and product features leads to lowering of the cost of equity thus benefitting the firm with financing aspect. It also stated that companies involved with less ethical products like tobacco face high cost of financing because they are viewed by the market as riskier. One of the latest studies by Ng and Rezaee (2015) also supports the negative relationship between CSR involvement on three-dimension i, e environment, social and governance on the cost of equity capital of the firm.

V. CSR AND HUMAN RESOURCE

Human resource department plays a critical role in ensuring that the company adopts Responsibility programs. Human resource professionals have a key role to play to help a firm to achieve its CSR objectives. Human resource managers have the tools as well as opportunity to attract, motivate and retain talent, where out of these reductions in turnover (retention) can be measured. Many companies survey employees in order to find out the reasons for staying or leaving the firm by mapping their responses in relation to corporate social responsibility models into differential turnover rates. Employee turnover varies from basic salary of entry level positions to 400% of base salary for highly-skilled specialists due to which costs of employee turnover is quite steep. (Blake,2006). Thus, if CSR help retain one highly skilled employee who earns \$100,000, this translates to a \$400,000 benefit. Many researchers concluded that in terms of motivating employees, CSR altruistic firm-contributions from employees and facilitate the use of implicit, or trust-based, contracts (Balakrishnan, Sprinkle, & Williamson, 2010).

Nevertheless, CSR can inflate the performance leading to employee's motivation and can diminish the need for costly performance evaluation and measurement systems. Estimating such benefits can be beneficial to foster the employee productivity surrounding CSR activities. For example, employee performance may rise before and after they volunteer their time to a socially relevant endeavour. Furthermore, employees are always proud of working in socially responsible firm which has good reputation, thereby they have more loyalty and commitment to the organization, which makes employees stay longer in this company (Bohdanowicz and Zientara 2008). Melynyte and Ruzevicius (2008) reviewed previous research about links between HRM and CSR and then summarized three forms of links. 1) 'CSR functions identical to HRM functions (interdependent link)'. 2) 'HRM functions making impact on CSR (SR activities emerging from HRM)'. 3) 'CSR functions making direct or indirect impact on HRM (how SR activities make impact on HRM)'. Therefore, CSR principles should be integrated into HRM practices because it benefits for company by improving job satisfaction, enhancing organizational commitment, advancing employees' performance and decreasing the turnover. Firms also might realize cost reductions associated with hiring the professionals, including related with travel for recruiters, advertising, job candidates, HR personnel, and requisite training. Basically, these reductions can provide with an estimation of benefits earned by multiplying the number of hires with the average cost per hire. Undoubtedly, such reductions can directly link CSR, which may lead to problematic situations but can be favourable by imprecise yield estimates.

VI. CSR AND MARKETING

Nowadays, it has become quite easy for the firms to be telecast on provincial and domestic media outlets i.e. newspaper, television, trade journals, radio and magazines, which could reap the company's reputation in the market leading to good corporate governance. Moreover, many companies can estimate in advance the costs attached to advertise in these numerous media platforms. So, by trailing the press "equivalent" advertisement hits in comparison with associated costs, companies can reasonably evaluate the benefits of such publicity.

VII. CONCLUSION

Many companies, which have decided to adopt social practices with their stakeholders in order to enjoy related benefits can also forward their extent with CSR principles. Therefore, profit driven companies exhibit no sense of responsibility towards an improvement of society, and hence lose out on their firm reputation, customers and shareholders. Even, no shareholder or worker would like to get involved with a company, which does not confirm legal and transparent ways of generating revenue. So that is the concept behind birth of CSR. Moreover, companies which are running with an active CSR, play a major role towards contributing in the development of the community and general public. Main focus of socially driven companies where they operating are to make profit in a way that does not destroy the social and ecological foundation of the country, where human plays an utmost importance in their list of considerations. Companies which employ higher level of CSR commitments are usually benefitted with increased level of morale and satisfaction among employees. Employees feel motivated and feel good to be part of such companies. CSR adds a lot to the brand reputation of such companies and contribute to a large extent in building a positive public image of the companies. This promotes the customer loyalty and helps companies in attaining a competitive position in market. Investors view such companies as less risky and are more willing to invest in such companies. Due to this reason companies don't have to depend on the market conditions and can raise finance in large quantities more easily for their investments. Thus, our study concludes that CSR is a win-win situation in which both the society as well as the company is benefitted. CSR can play a very important role in strategic positioning of the company and the management should focus more on CSR and see CSR as continuous investment in order to reap the maximum benefits.

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