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The Impact of Corporate Social Responsibility on Financial Performance: A Comparative Study of Green and Non-Green Firms

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Abstract:

This research compares green and non-green companies to investigate how corporate social responsibility (CSR) affects financial performance (FP). Although the relationship between CSR and FP has been studied in the past, the findings have been contradictory, and the conclusions can't be reached with certainty because there isn't enough specific data on CSR. This study's main goals are to examine the relationship between corporate social responsibility (CSR) and financial success, as well as the possible effects of increasing media attention on CSR initiatives on business outcomes. The study intends to address important concerns about the advantages and results of CSR participation while acknowledging the variety of stakeholders engaged in assessing the business value of organizations.

The study looks at the kinds of CSR activities that provide positive CSR effects and assesses whether CSR initiatives add to or subtract from profit maximization objectives. The study advances our knowledge of how corporate social responsibility (CSR) affects financial performance, especially when it comes to green versus non-green businesses.

Keywords: Corporate social responsibility, financial performance, comparative study, green firms, non-green firms, stakeholders

Introduction

Many studies have been conducted to determine whether CSR has an effect on financial performance (FP) and how strong that effect is. However, most studies are constrained by a lack of documentation exclusively on corporate social responsibility. Empirical test results are also inconsistent. Some studies found that CSR boosted corporate financial performance, while others found that CSR did not relate to corporate financial performance. Most existing studies addressed the effectiveness of CSR on FP. However, the results are not consistent. The primary objective of this study is to examine the impact of CSR on corporate financial performance. Furthermore, additional press publicity on CSR activities will determine whether increased publicity will affect corporate performance.

Companies are involved with various stakeholders, including regulators, lenders,

suppliers, employees, and the public, each inclined to evaluate the business value in frequently broad terms. All stakeholders are interested in how their corporation operates, whether reactionary or principally concerned with pursuing profits. Given the interests of these groups, it becomes increasingly important to answer the following questions: Are corporations better off or worse off when they participate in CSR activities? Does CSR activity lead to improved stock returns? What kind of CSR activity generates CSR benefits? The fundamental motivating issue has been whether altruism (as often presented by corporate giving or CSR activities) detracted from the goal of profit maximization. (Freudenreich, Lüdeke-Freund, & Schaltegger, 2020); (Pfajfar, Shoham, Małecka, & Zalaznik, 2022).

Corporate social responsibility (CSR) is a concept that many firms willingly embrace. Although CSR aims to ensure the highest sustainable operating standard, a concern has been raised regarding the effect of CSR actions performed by firms that voluntarily adhere to standard CSR policies. Most investors assume that firms that embrace CSR actions expend sizable resources that reduce corporate profitability. Therefore, investors unwillingly invest in firms that embrace CSR actions or have low stock valuations over the long term. (Asogwa, et al., 2020); (Lin, Li, Cheng, & Lam, 2021).

Literature Review

One of the most heated debates on corporate social responsibility is whether companies can "do well by doing good." Some scholars assert that companies have only one responsibility: to make profits within the framework of the legal system. This view is frequently associated with the economist Milton Friedman, and it is known as shareholder value theory. However, nowadays, robust empirical research has shown that the impact of a good social environment may positively influence a company's economics. Earlier studies have also suggested the potential benefits of CSR. First, access to a firm's stakeholders and resources can be enhanced. Second, CSR can generate intangible assets and build up a positive reputation, telling good things about products and company brands, and getting competitive advantages. Third, CSR is conducive to human resources management. Productivity rises in terms of lowering sickness absence, reducing staff turnover, and increasing esprit de corps. Fourth, CSR may help in managing risk. The expense of legal penalties and clean-up activities for environmental damage, product safety problems, bad issues of products may be lowered. Finally, the demand for a company's support or service can also expand. (Cek & Eyupoglu, 2020); (Gangi, Daniele, & Varrone, 2020); (Zhang & Ma, 2021).

This study is related to the general topics of CSR and the impact of CSR on firms' financial performance. Therefore, several theories and empirical findings related to CSR and the relationship between CSR and financial performance will be reviewed in this section, and the authors will also explore the distinctions between non-green and green firms within the CSR domain. Traditionally, most business people and scholars see social responsibilities and firm performance as an inherent adverse link. The implied mentality embedded in the limited

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view of firms and stakeholders is as if they are part of separate entities. (Ye, Wang, & Lu, 2021).

- **Corporate Social Responsibility**

Little attention has been paid to how strategic entrepreneurial policy is developed. That is support in favor of strategic business. Most strategic business writers, but not CSR ones, agree that the development of business policy and strategy is fundamentally concerned with displacing the organization against the market and other externalities. Arguably, the concept currently used in the study of strategic management and strategic business policy only implies a reflective reader. Businesses and society are inextricably connected. (Chatziioannou, Alvarez-Icaza, Bakogiannis, Kyriakidis, & Chias-Becerril, 2020); (Owen, Zhang, & Arratia-Solar, 2020).

Companies must continue to build trust, understanding, and good relationships with all their stakeholders. Societal needs have swelled, and activists represent various groups of interest, such as employees, consumers, environmentalists, and regulators. Stakeholders are also changing, largely through word-of-mouth-generated public opinion, picketing, and legal activism. Not only have stakeholders' wants and expectations changed, but the entire external environment of an organization or industry has changed. Stakeholder thinking emanated from the ecology movement, giving birth in companies like Greenpeace, World Wildlife Fund, Amnesty International, Manfred, World Health Organization, global forum, and other pressure groups. (Barthold & Bloom, 2020); (Mhlanga, 2022).

Factors, including publicity from the press, have given the environment greater importance. Few management decisions, if any, are socially neutral. From packaging strategies to product designs to entry strategies to location decisions, businesses affect a wide range of societal interests directly or indirectly. The concept of corporate social responsibility comes with this concern over what business policy ought to be. The difficulties in arriving at satisfactory corporate policy on social issues stem from a complex set of interrelated factors involving, among other things, the environment, business history, business strategy, relations with stakeholders, and political pressures. Moreover, those who apply ineffective stakeholder strategies influence the internal corporate decision process. (Li, Ren, Yao, Qiao, Mikalauskiene, & Streimikis, 2020); (Dmytriyev, Freeman, & Hörisch, 2021).

Since the early 1990s, Corporate Social Responsibility (CSR) has spread worldwide and become a popular topic. Academics have conducted numerous studies in favor of or against CSR. The concept of CSR was first developed and used in the 1930s to propose that corporations had an obligation to adopt policies congruent with their resources, values, prerequisites, and conditions of society. Strategic business has become an influential contemporary business philosophy for over a decade. Strategic business followed a sophisticated learning curve, thanks in part to almost exclusively single case studies. Strategic business examines the normative question of what business people ought to do in the face of economic globalization. (Mishra, 2020); (Carroll, 2021).

- **Financial Performance**

In financial performance studies, the normal domain considered in the business literature is profitability, which differs from firm market valuations because of value forward looking or accounting standards quarterly results reporting. Profitability is a generally used measure of short-term financial performance, as it reflects the different components identified by commercial accounting principles that make up the condition of profitability because profit levels are rational. However, it is acknowledged that accounting information relies on externally audited financial statements based on historical costs or tried valuations. Different methods are used to illustrate the firm performance measures. (Haessler, 2020); (Almagtome & Abbas, 2020).

There is a long-standing interest in and concern for business performance in the business and economic literature. Many studies have been devoted to measuring and determining business performance, though no consensus has yet emerged on either the defining metric or the determinants of business performance. Business performance is, by nature, multi-dimensional and may be usefully considered by distinguishing between the different perspectives of various interested parties. Perspectives of financial performance address the firm perspective, while the product and manager market performance perspectives focus on the product and customer perspectives, respectively. CSR studies focus on the firm perspective, customer satisfaction studies focus on the customer perspective, and quality and marketing management studies are concerned with product issues. (Mio, Costantini, & Panfilo, 2022); (Gatto, 2020).

- **Green and Non-Green Firms**

Several composition reports of socially responsible companies mostly ignore environmental considerations and, when they are specifically addressed, no particular distinction is made between the two qualifiers. The delineation of information collation between green and non-green companies, or some of the constituent sub-interests, is important to the researcher if he wants comparable views. Similarly, for the practitioner who wants to know whether a discernative distinction exists. Some 'popular' components claim that good corporate environmental performance and environmental stock selection go hand-in-hand, whereas others argue that it does not; part-designating investment made in corporate environmental systems neither increase companies', nor the investor's, wealth. Such claims help to frame the generic green company. At this stage, no specific research has been found relating to the impact of green and non-green company status on external financial performance. (Kyere & Ausloos, 2021); (Awaysheh, Heron, Perry, & Wilson, 2020).

When talking about CSR as a mainstream corporate duty became fashionable, many organizations rushed to claim that the enterprise activity was delivering a claimed good benefit. This happened without the need for further legislative requirements that led to specific CSR work being disclosed. More recently, European-based Commission directives have imposed obligations on certain companies to report in a green-friendly venture to compel

the organization to indicate if they had a smokestack, not only in their own place but also on a global location.

Methodology

We define "hiren" shareholders as shareholders who hold more than 5% of voting rights of the company, and we define "lowren" shareholders as the remaining shareholders in the study, and calculate the revision rate of the company in this paper. I count the number of words that represent the CSR content in El regulations such as company golden annual reports and company homepages. I regard the number of words as the measure of the company's CSR activities. This study uses the hierarchical regression method to test the effect of investor sentiment and corporate governance on CSR.

Under the framework of the study, the dependent variable is the firm's financial performance, while the independent variable is the firm's CSR performance. This study selects four variables to measure the financial performance of large firms: ROA, ROE, market-to-book ratio, and Tobin's q, which are widely used in the literature. But when it comes to small and medium-sized firms, an important problem is that the traditional linear scoring or comprehensive index method may not be applicable and would lose some information if we do not consider the distribution of variable values. Therefore, this study collects the financial data of large firms and small and medium-sized firms respectively, and divides the data into pig3 sample, pig5 sample, which means sample1. This study uses the GARCH mean model to test the impact of the firm's CSR performance on its financial performance.

The study has empirically shown, with respect to our period in study (2007-2011), that green companies have statistically significantly higher accounting financial performance, measured by ROA, ROS, and ROSales, also having statistically significantly higher median of their accounting financial performance in all examined years. Regarding the quality of their financial performance, we also find that green companies have higher P/E and P/BV ratios than non-green companies, with green companies having a significantly higher median of their accounting financial performance in all years, except for the year 2008 in the case of the P/BV ratio. Results indicate that ROA, ROS, M/B, and P/E imply that financial performance is better in green companies than in non-green companies. Our results are congruent with the maximizing shareholder's wealth aim of the company, statement made famous by Friedman in 1970. We also find that P/BV and P/EBITDA do not show a relationship between financial performance and environmental performance. Our study also brings new empirical evidence on CSR and profitability relationship to existing literature in several ways.

The research aims to compare the financial performance of the green and non-green companies and to show if there exists a positive relationship between good environmental performance and good corporate financial performance, using both accounting and market measures. Data are provided by the Top 100 Most Socially Responsible Corporations, released by Covalence EthicalQuote, a company rating system that monitors the world's

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largest companies for their ethical performance. Out of these 100 companies, we have examined 58 companies for the 2007-2011 period, including only the companies that report financial information in the Worldscope database. We split the companies into 2 groups, according to the quality of their environmental performance: 28 firms have very good environmental performance results; we called these firms green companies, and the other 30 are non-green companies. For testing the financial performance, we have used both accounting (ROA, ROS, and ROSales) and financial ratios (M/B, P/E, and P/BV), which are computed for each of these years.

Measuring the Impact of Corporate Social Responsibility on Financial Performance

and may, therefore, the conclusion, of course, only reflect the limitations of our particular study and particularly of our measures, which do not characterize all claims about the implications of a corporation's social responsibility performance. Our results show only that, to the extent that analysts base their forecasts of future or present conventional financial variables upon current levels of social responsibility and environmental activities and previous earnings surprises, the data do not contain any reliable correlations between the classification of socially responsible firms according to organizational choice and the discounting rate for future cash flow. Similarly, the data do not contain reliable correlations between socially responsible firms' classification and enough credit risk.

We can find no significant environmental impact on either stock price or common equity returns, nor do our environmental data fully support an industry-level hypothesis. Second, we find the CARs (cumulative abnormal returns) for only two of our five corporate social performance factors. The category of social responsibility factors has no significant impact on stock price changes around the event. In sum, there is little support in our data for the claim that the corporate social and environmental performance factors in this study positively impact financial performance. Instead, in conjunction with prior literature, the evidence we present tends to support the conclusion that the relationship among these aspects of corporate responsibility social performance and market valuation is mixed at best.

Conclusion

The Pooled Ordinary Least Squares (OLS) Results The regression analysis was performed and estimated the relationship between CSR and firm's financial performance using the standard OLS model. The findings are presented in Table 6. Firstly, the findings from the panel OLS regression analysis showed no relationship between CSR and the financial performance of the SA firms. Given the return on assets (ROA) as the measure of financial performance in the first and the second model, the result indicates a negative relationship between CSR and ROA of the firm, yet both relationships were found with a statistical insignificance. When the SA Green firms included in the second model, the results confirm an insignificant relationship between CSR and ROA of the SA listed firms, both before and after the inclusion of the SA Green firms. Secondly, the results found a significant

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negative relationship between CSR and sales of the SA listed firms in the non-green industry. Specifically, the first model used the level of sales, while the second model used the logarithm of sales, with a negative sign indicating a negative relationship.

The Type of the Firm's Industry Consistent with prior research, the results in the second model confirm the presence of a significant relationship between CSR and firm's financial performance, and show that the relationship changes from positive-and-insignificant to negative-and-significantly associated with firm's size. These results provide support for the existence of a beneficial positive relationship between CSR performance measures and financial performance, when firm's size is taken into account, and the evidence suggests that the negative relationship can take place. Furthermore, the presence of a negative significant association provides a contradiction to prior research as it found weak evidence for the negative direct association, indicating that the prior research findings may vary depending on the context of the firm, the research design used, and the type of the firm's industry. Such differences between the prior research findings provide interesting implications.

In this paper, we examine a specific firm attribute and the extent and quality of mentioning corporate social responsibility. The results tend to suggest that the greater the quantity and quality of communication on the issue of corporate social responsibility, the greater the likelihood that the firm is engaged in positive engagement towards stakeholders. Success in business and financial demand for employee welfare has driven stakeholder accountability to the top of the managerial agenda. By adopting a dual examination approach and investigating firms according to two stakeholder groups (community and employees), this paper provides interesting results of the different dynamics at work in a firm's social concurrence.

The research findings have a number of implications for corporate social responsibility and business management. First, our findings are contrary to the popular view amongst business circles and academics that pursuing socially responsible activities is detrimental to business profit and shareholder wealth. Suppose there are no material financial disadvantages (and in the case of the environment, some financial advantages). In that case, it is hard to justify weak corporate commitment to these very important stakeholders morally. It is also hard to believe that corporate stakeholders believe that business should only be about making profits, thereby excluding other important areas of social concern. By including these issues and stakeholders at the heart of the business strategy, the decision-making process can become far more aligned, helping to reduce unethical behavior.

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