

# Impact of CSR on Organizational Performance

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## Abstract

This research paper aims at proving the importance of CSR for the enhancement of the performance of the organizations. The six companies that have been focused are listed in the Pakistani index. The CSR (independent variable) has been analyzed by two indicators and Organizational Performance (dependent variable) has been analyzed by another two. Both primary as well as secondary data has been used and for the analysis descriptive, regression and correlation methods have been adopted. The findings depict a highly positive correlation between ROA and turnover out of all while the standard deviation for turnover is also abnormal. Regression results are not significant and appear to be rejecting the proposed model. Also at the end some recommendations have been made that highlight the importance of CSR for the betterment of the performance of the organizations. The overall study is a guiding force for the managers and a helpful tool for future researchers

**Keywords:** CSR, Organizational Performance, Stakeholder Perspective.

## Introduction

In general it is said that a company needs to be responsible for all the action they do, ethically and socially. It is necessary to check the effect of the organization on the social welfare and environment. Corporate social responsibility can also be defined as the sense of responsibility of the organization towards social environment and community. It helps to understand that what actually company is doing with their profits and how they are affecting the society. As with the growing factor in the economy and advancement in business strategies the organizations are not only accountable to share holder but also to the stake holders such as supplier consumer employees and community, etc. It is basically a partnership between the business corporations and socially active groups for the purpose of society development and community growth. The emerging perspective on corporate social responsibility is not to emphasis on shareholder perspective by maximization of profit but is to focus on stake holders view point (employees, customer, supplier, management and community) and for their welfare. In real sense the corporate socially responsibility is the coalition of business operation with social standards. Now a days the business corporations and organizations are more interactive with the societies than ever before. Corporate social responsibility is an integral part of the business corporations as it not only provide support to beat the business competitor but also provide help to grow the business in the society. So by focusing on the financial success and community growth, the company can increase it performance rapidly as compare to their competitors.

According to researchers and authors, talking about ethics is a crucial to the development of business success so now a day ethics got huge attention and numbers of books published in last 2 decade. Individual efforts and government efforts are not enough to bring change in the Society. But with the increasing esteem and popularity of CSR more and more companies are playing an important role in growing societal values and community development regarding environmental policies, human rights and business ethics. So now companies are paying equal attention on the social and environmental focus as well as financial performance. Some companies are operating CSR much more than their lots of business opponents. As the companies practicing CSR, build good reputation in the market and attract more job seekers and costumers, which lead to increase in organizational performance (Viswesvaran et al., 1998). On the other side then, by practicing CSR, the company get successful in increasing the customer loyalty, job satisfaction and business performance.

## Literature Review

Corporate social responsibility effect the performance of the organization in different ways. It helps to increase the financial performance of the company so that company will grow rapidly and gain maximum revenue in the market. If a company will follow CSR and try to satisfy their stakeholders then it will definitely able to beat competitors. From last few decades there is a rapid growth in the corporate social responsibilities issues and activities. "Due to increased awareness among shareholders, stakeholders and community organization about requirement and needs of CSR, there is a long debate arises among them that who get benefits and who will bear cost of implementing CSR activities" (Tsoutsoura, 2004).

Hence there is no proper definition of CSR is available and different researcher define it in different ways so Hill (2006) define it in way that CSR is a set of practices which elaborate the role of good management, business activities and practices and it is something more about transparency of the organization and disclosure to stakeholders. CSR effect directly to financial sector of the organization and effect the profit of shareholders.

The previous literature shows that most of the researches correlate measure of business performance which needs yet to prove a theoretical report. According to the authors the empirical literature of corporate social performance didn't not match the variables in term, that which stakeholder were relevant to which type of measure.

"Furthermore the researches using market based variables and their theory define a consistent relationship between social and financial performance" (Wood & Jones, 1995). Becchetti et al. (2005) has inspected the performance and profit maximizing conditions in a product differentiation model. The degree of stakeholders and CSR are vigorously influenced by traditional approach. The pragmatic conclusions maintain the hypothesis that motivation of customers is varied to pay for social and environmental concern and vigorously overcome by tendency persistence. This is socially required that a corporation should focus on broader view and also take care of society and environment. "The trend of CSR is rapidly increasing in last few years. According to authors it is not possible that CSR should focus on every problem of society which defiantly not in good favor of business as well as society" (Bhattacharyya, 2008).

CSM (2001) report talks about broader view of modern business. This article describes the behavior and observation towards CSER (Corporate, social and environment responsibility) based on a survey conducted in 2001. Companies surveyed were asked for both their impression of corporate social/ corporate citizenship and environmental responsibility as well as mentioning any strategy or actions being taken in these sectors. Dhaliwal (2009) discussed that the organization that spend high cost on CSR will become relatively superior in their performance and avail the benefit of reduction in the cost of owner's equity. Furthermore the corporation following CSR can attract more investors as compare to other organizations which are not focusing on corporate social responsibility. It also helps to minimize the upcoming errors and dispersions.

Now a day's CSR has come forward as a view that can helps to increase the overall financial performance of the organization recommend different ways of decision making to the top management and share holders of the organization. The implementation of CSR is raising the sense of taking care, of society and environmental relationships in both stakeholders and shareholders. So, every company has different way of put into operation CSR in their business practices. According to Dibella and Woodilla (2006) explained the idea of CSR in simplest way that the process of CSR create the harmony between the shareholders and stakeholders. The relationship between CSR and ownership, differences between two main factors of social responsibility of any organization; stakeholders and social issues was described by Goergen and Renneboog (2002) and he also explained that how different ownership structure effect CSR level.

### Methodology:

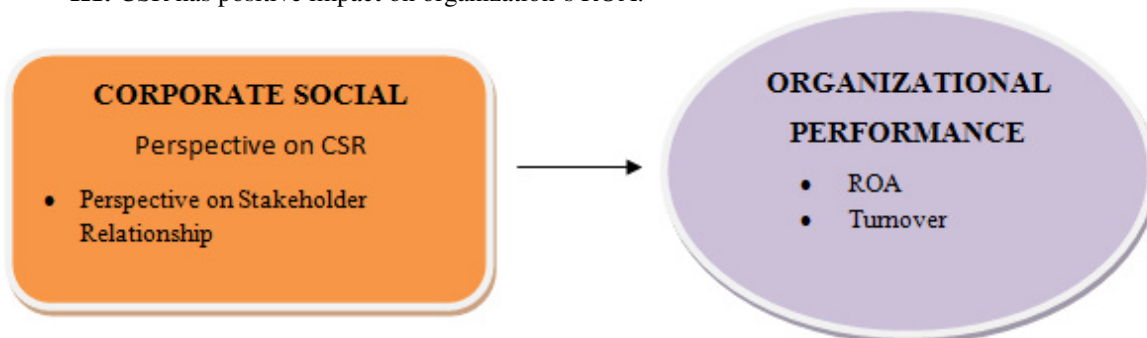
As a sample 6 organizations are selected which are listed in the stock exchange out of 30. Two data collection methods are adopted both primary and secondary. Primary data is collected from surveys and questionnaire and secondary data is collected from news papers, reference papers of published articles of different authors. Questioner can be filled by survey and other returns and turnover are calculated by the annual reports and persons related to the organizations.

The data is qualitative in nature. It puts onward details about its formation, the strategy observed in making the questionnaire' and organizational demographics. The main purpose of this study is to describe the relationship between the CSR (being measured by Perceived CSR and Perceived Stakeholder Relationship i.e. PCSR & PSR, respectively) and organizational performance. Organizational performance of any organization can be measured by the total Turnover and Return on Assets (ROA). Both are calculated by their empirical formulas. For the calculation of ROA amount of total assets is divided by the total income before deducting taxes.

### Hypothesis:

**Ho.** CSR has positive impact on organizational performance.

**H1.** CSR has positive impact on organization's ROA.



## Results & Discussions

Table 1 presents the descriptive statistics for the variables under study. The results indicate that the standard deviation of the data ranges from an abnormal high of 2606106499% for turnover to 14% for ROA. Turnover also has very high maximum and mean values.

Table 1 Descriptive Statistics

	N	Min	Max	Mean	SD
<b>TURNOVER</b>	6	8500	67103900	17050933.33	26061064.99
<b>ROA</b>	6	.0480	.42	.14	.14
<b>PCSR</b>	6	2.90	3.80	3.4000	.34641
<b>PSR</b>	6	3.00	3.64	3.3182	.29176

Table 2 represents the correlation for the data. Only ROA and Turnover have highly positive correlation among them at 95% level of confidence. Others are also correlated but their correlations are insignificant. Whereas Table-3 represents the regression results and indicated that PCSR has positive impact on both financial indicators but without any significance. Similarly PSR influences the performance indicators negatively yet there is no significance. Also the model is also rejected because of insignificance.

Table 2 Correlation

\* Significant at the 0.05 level

		TURNOVER	ROA	PCSR	PSR
<b>TURNOVER</b>	<b>Pearson Correlation</b>	1			
	<b>Sig. (2-tailed)</b>				
<b>ROA</b>	<b>N</b>	6			
	<b>Pearson Correlation</b>	.874(*)	1		
<b>PCSR</b>	<b>Sig. (2-tailed)</b>	.023			
	<b>N</b>	6	6		
<b>PSR</b>	<b>Pearson Correlation</b>	.623	.282	1	
	<b>Sig. (2-tailed)</b>	.186	.588		
<b>PSR</b>	<b>N</b>	6	6	6	
	<b>Pearson Correlation</b>	-.677	-.592	-.306	1
	<b>Sig. (2-tailed)</b>	.139	.215	.556	
	<b>N</b>	6	6	6	6

Table 3

Regression

		TURNOVER	ROA
<b>PCSR</b>	<b>co-efficient</b>	0.459	0.111
	<b>t-value</b>	1.279	0.229
	<b>p-value</b>	0.291	0.833
<b>PSR</b>	<b>co-efficient</b>	-0.537	-0.558
	<b>t-value</b>	-1.496	-1.153
	<b>p-value</b>	0.232	0.333
<b>F-value</b>		2.781	0.851
<b>p-value</b>		0.207	0.51

## Conclusion

Now with the new policies and procedure it is mandatory for all the organization to follow CSR activities. Now the managers believe that every organization should focus on CSR activities as these will not only help to improve firm's image but also do a value added contribute to the society. The study concludes that recognition of company –CSR aspect which would help company to prioritize their conscientious events as well as company's obligations. It was observed that process of value addition for businesses by constructing good reputation is affected by other factors. The higher innovation will lead to greater Return on Assets and Return on Equity. According to some authors that research and development can help to improve the financial performance of the organization but with the R & D impact corporate social performance will not be considerable while keeping in focus ROA and ROE. According to some other authors it is concluded that relationship between CSP and CFP is quite uncertain when variable of more accuracy were introduced in economic model. Companies are following CSR having extra benefits of customer loyalty which ultimately increase the profit margin of the firm. With the increase in good will, the organizations get high reputation in the eye of stakeholder and help to beat competitors.

This study not only contributes to the empirical study but also offers some recommendation. The analysis shows that better CSP may not influence CFP so it is difficult to anticipate CSR from a firm. But still organizations need to follow the policies described by the government bodies of the countries which demand more transparency to cover the benefits of stakeholders. It is observed from survey those respondents are unable to differentiate CSR from charitable activities. It is also noticed that some firms are focusing on community growth while ignoring the internal factor which is also a part of CSR activity that is transparency, proper disclosure and CG. It is strongly recommended to make a strategy of CSR, focus on long run goals of the firms and their must be a proper CSR department which will evaluate the impact of CSR on performance and measure the organization financial performance.

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## Appendix Questionnaire

Organization: \_\_\_\_\_ Designation: \_\_\_\_\_ Experience: \_\_\_\_\_

<b>1-Strongly Disagree to 5-Strongly Agree</b>	
<b>Perspective on CSR</b>	
1	Leading Socially Responsible firms are generally linked with greater financial performance
2	Firms with ample resources are generally more capable to put in resources towards Socially Responsible actions.
3	Good reputation of a firm has no role in sustaining a superior financial performance over the time.
4	Firms with a higher environmental performance have also higher financial performance, especially in high-growth and innovative industries
5	Being socially responsible is like a free marketing tool for improving stakeholders relations and supply chain management
6	Being socially responsible is a path of healthy competition, ethical and transparent business practices that help to establish harmonious relationship in or outside the firm.
7	There is no single 'Recipe' for attaining sustainable growth or competitive advantage. CSR is one of its ingredients.
8	CSR can be a source of opportunity, innovation and competitive advantage- much more than a cost, a constraint or a charitable deed.
9	To maximize Competitive advantage, firms are required to be considerate while formulating and implementing CSR activities.
10	Attitude towards CSR may not help the firms to develop strategies – more sustainable and ultimately more value-creating
11	Firms can't improve their market positioning through strengthening corporate culture by social welfare activities
<b>Perspective on Stakeholder Relationship</b>	
12	Investors attitude is not influenced positively for CSR firms while subscribing their shares
13	Socially responsible firms may enjoy Government privilege as in getting financial assistance - directly or indirectly
14	Firms should sacrifice hefty profits to ensure customer brand loyalty
15	Socially responsible firms focus on open communicating environment, proper health, safety and welfare systems to improve employee productivity and efficiency
16	Transparent dealings and timely compliance to commitments may lead to a win-win situation for firms as well as to all their stakeholders
17	Firm's process of filing and resolving complaints of consumers, suppliers or other stakeholders is not necessary to improve competitiveness of the firms
18	Getting feedback, consultation, dialogues with customers, suppliers or other stakeholders of firm is crucial to improve the overall image of the firm
19	Socially responsible firms may not strengthen their hold on their stakeholders to improve visibility and sustainability
20	Being socially responsible, firms don't have any advantage in terms of trade or bargaining power with their stakeholders.
21	A 'Reputed' firm may also possess a cost advantage because, ceteris paribus, employees prefer to work for high-reputation firms, and thus work harder, or for lower remuneration.
22	Responding to stakeholders requirements is linked to core competence of socially responsible firms and it

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