

# CSR and CFP in Developing Economies

Submitted: 15-04-2022

Revised: 27-04-2022

Accepted: 30-04-2022

## ABSTRACT:

This article aimed to review the link between corporate social responsibility (CSR) and company financial performance (CFP) by considering the present literature on CSR and CFP in five developing countries in Asia including China, Indonesia, Malaysia, Pakistan, and Thailand. Although the relationship between CSR and CFP has become a hot stock in developed countries for several decades, the empirical literature on the relationship between CSR and CFP in developing countries has been relatively limited. Since CSR components in developing countries were different from those in developed countries, this text would be a piece of empirical evidence that presented conceptual research and the trend of the relationship between CSR and CFP in developing countries. Corporate social responsibility (CSR) has the potential to form positive contributions to the event of society and businesses. The increasing attention to CSR is predicated on its capability to influence firms' performance. The CSR movement is spreading over the planet and in recent years an oversized number of methods and frameworks are developed, the bulk being developed within the West. This study focuses on developing economies. The results show that CSR includes a positive and significant relationship with the financial performance measures. These results reinforce the accumulating body of empirical support for the positive impact of CSR on financial performance.

## I. INTRODUCTION

Corporate social responsibility (CSR) may be a style of international private business self-regulation that tries to contribute to philanthropic, activist, or charitable societal goals by volunteering or supporting ethically-oriented actions. While CSR could once be described as an inside corporation policy or a company ethics plan, that point has gone as various national and international regulations are formed and plenty of organisations have utilized their power to push it beyond individual or maybe industry-wide initiatives. While it's long been regarded as a sort of corporate self-regulation, it's evolved significantly from voluntary decisions at the number of individual businesses to required programs at the regional, national, and worldwide levels within the last decade roughly.

CSR is usually considered at the organizational level as a strategic activity that contributes to a brand's reputation. As a result, for social responsibility efforts to achieve success, they need to align with and be integrated into a business model. In certain models, a company's CSR implementation goes beyond regulatory compliance and includes "activities that appear to serve some societal good, beyond the firm's interests and what's required by law."

For decades, the company social responsibility (CSR) movement has swept the world and has become a hot topic in academic debate. Because business organisations' performance is influenced by their strategies and operations in both market and non-market situations, there's a heated discussion about it.

The extent to which social and environmental considerations should be considered by company directors and managers when making decisions the corporate paradigm has shifted from profit-driven to profit-driven, with a spotlight on social and environmental responsibility moreover as wealth creation for stakeholders. This notion relies on Elkington's triple bottom line (TBL) concept, which expands a company's focus beyond financial earnings to incorporate social and environmental factors. CSR is defined as a "business's responsibility to pursue those policies, make those decisions, or follow those lines of action that are beneficial in terms of our society's objectives and values" (Bowen,1953) This definition states that CSR is an organization's commitment to behaviour that ends up in economic development and contributes to the welfare of its employees, area people, and society at large. (WBCSD,1999).

Nowadays, leading corporations have invested heavily in CSR activities and adopted CSR initiatives as a part of their business policies and techniques, and reported annual details about CSR activities so as to get competitive advantages. although CSR is voluntary, when implementing CSR activities, high capital investment is required. The shareholder needs empirical evidence on how the CSR investment affects the company financial performance (CFP). Since corporate social responsibility may be a voluntary initiative, engagement in CSR is prevalent across various sorts of business in several countries.

an outsized number of methods and frameworks are developed to elucidate the importance of CSR and therefore the relationship between CSR and CFP, the bulk is being developed within the developed countries. In recent years, corporations within the developing countries are more awake to the CSR disclosure frameworks like GRI, UNGC, and ISO 26000. These frameworks shall institutionalize CSR on a worldwide level through the creation of norms, rules, and procedures for CSR. However, since sustainability disclosure remains a voluntary practice in developing countries, transnational regulatory bodies face many challenges in promoting CSR disclosure thanks to the shortage of direct power to penetrate national law (Brammer, Jackson, & Matten, 2012; Aguilera, Rupp, Williams, & Ganapathi, 2007). This study focuses on the relationship between CSR and CFP in five developing countries that including China, Indonesia, Malaysia, Pakistan and Thailand to represent countries with economic potential among developing countries. The contribution of article is to construct empirical evidence resulting in suitable framework for analysing and evaluating corporate social performance and examine the connection between CSR disclosure and CFP in developing countries. The results show that the connection between CSR and CFP is diversified and therefore the relationship between CSR and CFP mainly exist in three directions: correlation, correlation and no correlation.

Businesses may additionally engage in CSR for strategic or ethical reasons. CSR can augment business profitability from a strategic standpoint, especially if brands actively self-report both positive and negative effects of their endeavours. These advantages are derived partly from improving favourable packaging and maintaining high ethical standards so as to decrease business and legal risk by accepting responsibility for company actions. CSR initiatives urge businesses to own a beneficial impact on the environment and other stakeholders like customers, employees, investors, communities, and so on. Some organisations will implement CSR policies and procedures thanks to senior management's ethical beliefs: as an example, the CEO of outdoor-apparel company Patagonia, Inc. feels that environmental destruction is ethically undesirable.

#### **China's CSR and CFP**

Chen and Wang (2011) investigated the link between corporate social responsibility and financial success in China. For CSR performance, the research methodology identified nine kinds of

stakeholders (shareholders, managers, employees, creditors, suppliers, retailers, consumers, government, and community) and three variables: return on investment To this CFP, add return on sales (ROS), return on assets (ROA), and rate of sales (GRS). The link between CSR and CFP during a two-year period (current is that the subject of research time and therefore the following era) and also the link between CSR and CFP variation in two periods years. Data was gathered from "questionnaires of corporate social responsibility" that were self-designed. responsibility. Senior executives from 141 Guangdong companies took part in the survey. In the People's Republic of China, the info was examined using SPSS17.0 software for correlational analysis, relative analysis, and multi-regression. The findings suggest that CSR efforts can improve a company's current year's CFP while also having a serious impact on the subsequent year's CFP, and contrariwise. CSR and CFP variations can have a significant impact on one another.

#### **Indonesian CSR and CFP**

Fauzi and M.Idris (2009) investigated the link between CSR and financial success in Indonesian businesses. Data was gathered via a questionnaire with elements representing the subsequent variables: CSR, CFP, business environment, strategy, organisational structure, and system. 72 managers of state-owned firms (BUMN) and 148 private-owned companies were polled via post and e-mail, for a complete 220 samples. the aim of this study was to research the link between CSR and CFP as derived from the strategic management domain, still on establish a perceptual CSR measurement supported by a CSR survey instrument with seven dimensions. KLD(KLD Research Incorporated, 2008) and MJRA (Jantzi Research Incorporated, 2008) were the primary ones to develop it. in step with the slack resource theory and therefore the good management theory, there was a favorable association between CSR and CFP.

#### **Malaysian CSR and CFP**

The relationship between corporate social responsibility and financial performance: data from Malaysia was investigated by Wan Fauziah et al. (2016). The CSR index may be a variable that consists of 4 aspects from the foremost widely accepted and recognised CSR measurement (Kinderman, 2012): environment, community, marketplace, and workplace. Earnings per share (EPS) and return on equity (ROE) are accustomed measure CFP (ROE). The samples come from

Malaysia's top 100 firms on the securities market (Bursa Malaysia). For the past five years, data was gathered from text analysis of annual reports and therefore the Bursa Malaysia website (2009-2013). Using SPSS, specifically Pearson's correlation examines the link between CSR and CFP. the bulk of the relationships between CSR and CFP were found to be positive.

#### **Pakistan's CSR and CFP**

Tanveer Bagh et al. (2017) investigated the connection between corporate social responsibility and financial performance within the Pakistani financial sector. the key goal is to appear into the impact of CSR on Pakistan's banking sector's CFP. The population consisted of economic banks listed on the Pakistan securities market (PSX), with a sample of 30 topranked commercial banks chosen supported capitalisation. Data was gathered from annual audited financial reports, the statistical division of the banking company of Pakistan SBP, and therefore the PSX website throughout a ten-year period from 2006 to 2015. CSR is a variable that's quantified by the number of cash spent on CSR within the areas of donation, education, health, welfare, and other natural disasters. CFP may be a variable that features ROA, ROE, and EPS to analyze the impact of CSR on CFP, data were analysed using pooled multivariate analysis. CSR contains a good and considerable impact on CFP: ROA, ROE, and EPS, per the findings.

#### **Thailand's CSR and CFP**

Janamrung and Issarawonrawanich (2015) investigated the connection between the corporate social responsibility index and company performance within the industrial products and resources industries: empirical data from Thailand, viewing 204 listed businesses on the Thai exchange (SET). SET market research and Reporting Tool (SETSMART) data for the examined CSR Index were taken from annual reports and annual registration forms (Form 56-1) in 2008-2009, and CFP data: ROA, ROE, and information were gathered from Datasteam and SETSMART in 2010-2011. Investors may easily acquire data from public information sources, which were accustomed score the CSR Index. Firms will obtain

a score of "1" if they meet a criterion, and a score of "0" if they fail to satisfy a criterion.

The CSR index statistics are then generated by dividing the overall sum of real scores in each category by the category's highest total score. The CSR index value for every category ranges from 0 to 1. the information was studied using descriptive statistics and multiple rectilinear regression analysis to seem at the link between CSR and CFP in Thailand. in step with the info, companies with a better CSR index score even have a greater return on assets (ROA). Furthermore, investing in CSR programmes yields a positive return on investment within two years on the average. There aren't any correlations between the CSR index and return on equity (ROE) or the index and Tobin'Q.

Jitaree (2015) investigated the link between corporate social responsibility disclosure and financial success in Thailand. From 2009 to 2011, 323 firms registered on the Thai securities market were studied to determine if there was a link between CSR filings and financial performance (SET). The CSR checklist encompassed 45 CSR actions of Thai enterprises supported published annual reports and also the SETSMART based on published annual reports and the SETSMART database, which were then assessed and investigated using text analysis. The CSR index was assessed, as well as financial performance measurements such as ROA, NPM, EPS, and TBQ. The considered control variables are firm size, firm leverage, company age and the percentage of independent directors on companies' boards. Four regression models, including the cross-sectional model, the pooled ordinary least squares model, and the random effects model, are used to investigate three types of data individually as well as the fixed-effect model According to the findings, the most commonly shared CSR themes in Thailand are community and employee information. In every organization, there are substantial positive connections between CSR and ROA, NPM, and TBQ. In the manufacturing group, CSR has a positive and substantial link with ROA and NPM, whereas, in the non-manufacturing group, CSR has a positive relationship with TBQ. By the way, in some models, CSR is unrelated to EPS.

**Table 1** Summary of CSR and CFP in developing countries

Developing Country	Data	Methodology	Dimension of CSR (Independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
China	141 Samplings Year 2007-2008	1.questionnaires 2.factor analysis 3.relative analysis 4.regression analysis	1.stakeholder 2.operator 3.employee 4.creditor 5.supplier 6.distributor 7.consumer 8.government 9.community	1.ROS 2.ROA 3.GFS	1.industry background 2.nature of property rights 3.phase of life cycle	1.companies' social responsibility activity can improve their financial performances of the current year. 2. have significant effects on their financial performances of the next year, and vice versa 3. the variation of CSR and financial performance can also significantly influence each other
Indonesia	220 Samplings Year 2007	1.questionnaires 2.psychometric analysis 3.factor analysis 4. multiple regression analysis.	1.community and society 2.corporate governance 3.customer 4.employee 5.environment	1.growth dimension 2.profitability dimension 3.business environment hostility	1.company size 2.type of company (state-owned company or non state-owned company)	There is a positive relationship between CSR and CFP under the slack resource theory and under good management theory.

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
			6.human rights 7.controversial business	4.dynamism 5.complexity		
Malaysia	100 samplings Year 2009-2013	1.SPSS20 2.Pearson's correlation	1.environment 2.community 3.workplace 4.market place	1.EPS 2.ROE	n/a	Most of relationship between CSR activities and CFP were positive.
Pakistan	30 samplings Year 2006-2015	1.pooled regression models	Investment in corporate social responsibility 1.donation 2.education 3.health 4.social welfare 5.other natural catastrophes	1.ROA 2.ROE 3.EPS	n/a	1.CSR has positive and significant impact on CFP ; ROA, ROE, EPS 2. CSR phenomenon is an essential growth element and CFP-boosting tool in banking industry of Pakistan
Thailand	204 samplings	1.descriptive statistics	The CSR index is constructed	1.ROA 2ROE	n/a	1.Firms with a higher CSR index have higher ROA.

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
	Year 2008-2009	2. Multiple linear regression analysis	based on the KLD Rating Data  The criteria cover three parts of CSR and consist of 25 items: 1. community (8) 2. employees (8) 3. environment (9)	3. Tobin's Q.		2. The positive outcome of investment in CSR programs can be realized within a relatively short-time period.  3. No relations between the CSR index and ROE and Tobin's Q
Thailand	323 samplings  Year 2009-2011  Divid in 3 group: manufacturing,	1. descriptive statistics 2. Content Analysis 3. Multiple linear regression analysis including cross-sectional model, the	The CSR index is constructed by Checklist  The criteria cover three parts of CSR and consist of 45 items:	1. ROA 2. NPM 3. EPS 4. Tobin's Q.	1. firm size 2. firm leverage 3. company age 4. percentage of independent directors on companies' board.	1. Strong positive relationships between CSR and ROA, NPM and TBQ in all company. 2. Positive and significant relationship between CSR and ROA, NPM in the manufacturing group 3. CSR has positive relationship with TBQ in non-manufacturing group. 4. CSR is not related to EPS in all model.

Developing Country	Data	Methodology	Dimension of CSR (independent variable)	Financial Performance (dependent variable)	Control Variables	Finding
	Non-manufacturing, Financial	pooled ordinary least squares model, the random effects model and the fixed effect model.	1.Environment (11) 2.Energy (6) 3.Employee/HR (16) 4.Community/social (7) 5.Product Responsibility (5)			

## II. CONCLUSION

This article's empirical findings adds to our understanding of the relationship between CSR and CFP in developing countries. The majority of CSR concepts and principles have been developed using developed country frameworks, although they remain a voluntary method. However, there are significant disparities in the context of applying CSR practises in developing and developed countries, which are influenced by a variety of factors such as company culture, natural business systems, and geographical factors. All of the research in each country has been chosen, and data has been obtained from the List of Stock Exchange over the past 1-10 years, with a sample size of 30-220. Every developing country is attempting to create a framework for CSR activity. However, in poor nations, awareness of CSR ideas and transparency is currently weak. Based on a range of approaches for evaluating the dimensions of CSR disclosure, the dimension of CSR index is regarded an independent variable, although it is still divided

into three primary clusters: economic, social, and environmental based on the triple bottom line idea. Return on asset (ROA), Return on Equity (ROE), Earning per share (EPS), and Tobin'Q from market based assessment are among the dependent variables. To explain the relationship between CSR and CFP, the data were analysed using regression. CSR and CFP were found to have a favourable association in the majority of studies. The association between CSR and CFP in five nations could be the study's hypotheses, according to the literature review. In the economy of developing countries, the CSR phenomenon is seen as a critical economic ingredient and a vehicle for increasing CFP. However, because the research context and variables differ by country, the research findings differ by business type. As a result of our research of the literature, we were able to develop a conceptual framework for assessing the relationship between corporate social responsibility and financial success, as shown in Figure 1.

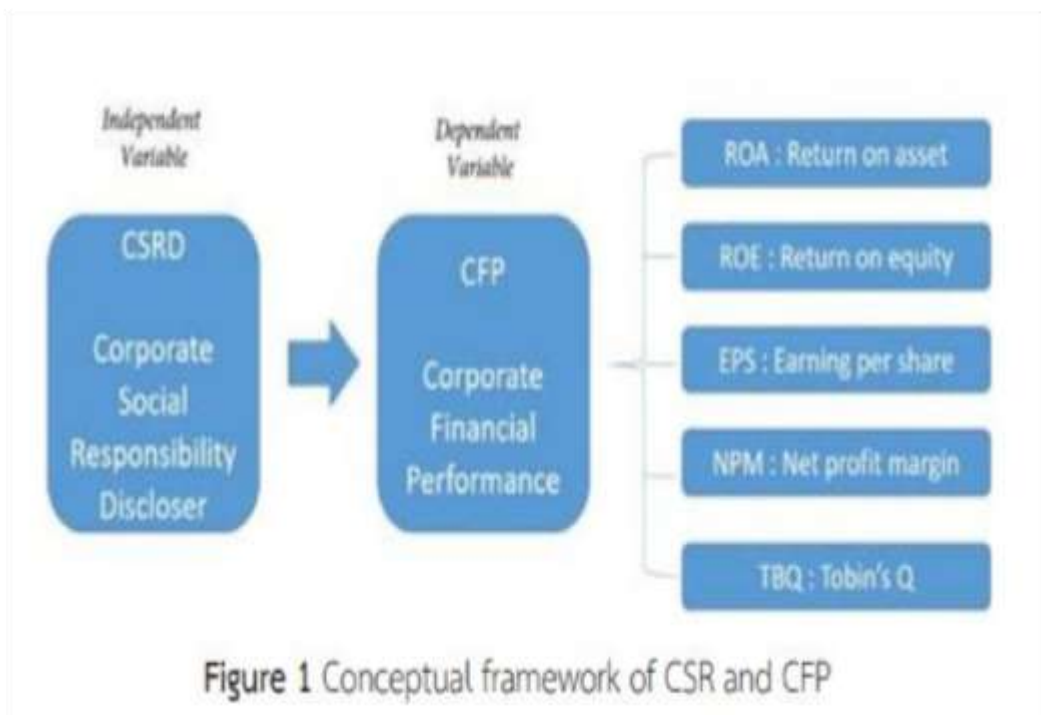


Figure 1 Conceptual framework of CSR and CFP