A Study of the Relationship between Corporate Social Responsibility - Financial Performance - Firm Size

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Abstract
The notion of corporate social responsibility is established on the reciprocal dependence between a company and society, as well as the indicators that influence this relationship. This paper explores whether profitability and company size have a potential influence on levels of corporate social responsibility according the annual dates of romanian companies, using statistical correlations. The research found that company size and company profitability have an influence toward the corporate social responsibility.

Key words: Corporate social responsibility, profitability, company size

JEL Classification: C10, G10, G30.

• Introduction
Corporate social responsibility is a business philosophy gaining popularity in the 21st century. The definition of corporate social responsibility is not abstruse. Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (The World Business Council for Sustainable Development).

Corporate social responsibility can be defined as the "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll and Buchholtz, 2003). Mathews (1993) has defined social and environmental disclosure as: organizations voluntarily disclosing both quantitatively and qualitatively about their corporate social responsibility activities in order to inform their stakeholders. Corporate social responsibility social activities may include charitable contributions to local and national organizations such as fundraising, donations. Corporate social responsibility is defined as the voluntary activities undertaken by a company to operate in an economic, social and...
environmentally sustainable manner, like resulting from information published by the Romanian companies on specialized pages (www.responsabilitatesociala.ro).

- **Prior Literature and Hypotheses Development**

  A considerable number of theoretical and empirical research on corporate social responsibility disclosure have been undertaken throughout the world due to the continuing emphasis on green awareness (Basalamah and Jermias, 2005).

  **Company Profitability and Corporate Social Responsibility**

  Profitability is the company's ability to produce a profit that would sustain long-term and short-term growth. The higher the level of corporate profitability should be the greater the level of social disclosure (Hackston and Milne, 1996).

  Profitability of company is measured by return on assets. Return on assets is a financial ratio used by business managers to determine how much money they're making on how much investment. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry. It is given by the ratio between net income and total assets.

  Uadiale and Fagbemi (2011), found that company profitability has positive effect on corporate social responsibility. Their study is based on the voluntary disclosure index constructed using the annual report of the sampled companies. Dependent variable of the study is financial performance which is represented by return on equity (measured as a proportion of Profit after tax to issued share capital) and return on assets (measured as the proportion of Profit after tax to total assets). The independent variables/parameters are community performance, environment management system and employee relations. Lev et al.(2008) examines the causality between corporate social responsibility(measured by charitable contributions) and financial performance, measured by sales growth. They demonstrate that corporate philanthropy programs have evolved towards congruence between business and social objectives (“strategic giving”), and that firms will not substantially invest in corporate social responsibility giving unless it adds economic value. Drawing upon theoretical arguments, Akpinar et al. (2008) demonstrated empirical evidence which shows that once stakeholders are prioritized corporate social responsibility has a positive impact on market-based financial performance whereas this kind of an impact does not exist when stakeholders are given equal weights. In their paper, Vințila et al.(2009) established a positive relationship between social performance(CSP), measured through a coefficient, and financial performance of companies (size and profitability), at the level of a sample of Romanian companies listed on Bucharest Stock Exchange. Duca (2011) found that there is a positive relationship between corporate social responsibility expenditure and firm performance. Teoh at al. (1999), and Aly et al. (2010) found that company profitability has no effect on corporate social responsibility. Therefore, we formulate our hypothesis as follows:

  H1: There is a significant relationship between profitability and corporate social responsibility
Company Size and Corporate Social Responsibility

Company size is the size of the company's image, which can be assessed based on the volatility of the company's activities, which can be viewed from various aspects. Company size is the independent variable which explains the variation in corporate social responsibility. Size of company is measured by the total assets.

From an empirical perspective, various studies have found that there is a positive relationship between corporate social responsibility and firm size. Uwalomwa (2011) identify a significant positive relationship exists between the size of firms (financial sector) and the level of corporate social disclosure. So, simply implies that the larger the size of a firm, the more they will be willing to invest on resources and corporate environmental technologies that are environmentally friendly. Parsa and Deng (2008), which employ data from U.K., indicate that a positive change in company size leads to positive and significant change in amount of corporate social responsibility disclosure. Branco and Rodrigues (2008) show that the amount of corporate social responsibility disclosure in large companies is higher than small companies, because stakeholders expect greater corporate social responsibility disclosure from large companies than small companies. Social responsibility disclosure does not relate to the company size. CSR disclosure might be influenced by the concern of the management or the environmental awareness (Rahman and Widyasari, 2008).

Therefore, we formulate our second hypothesis as follows:

H2: Company size has a positive influence toward corporate social responsibility

- Research methodology

We examined the relationship between profitability company, size company and corporate social responsibility on a sample of companies for the 2008 financial year. Data was gathered from publicly available information, as well as information from corporate social responsibility of Romania. Data has been analysed by using correlation and regression.

In order to test the above hypotheses, the study will investigate the following models:

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \mu (1), \]

Where:

- \( Y \) represents corporate social responsibility (measured by the corporate social expenditure, CSR);
- \( X_1 \) represents Profitability (measured by return on assets, ROA);
- \( X_2 \) represents Size (measured by the total assets);
- \( \mu_{it} \) = Error term.

Corporate social expenditure budgets for Romanian companies (Figure nr. 1) are divided into the following areas: education, culture, environment, social, human rights and sport (www.responsabilitatesociala.ro).
**Figure nr. 1: areas of corporate social responsibility**

Source: www.responsabilitatesociala.ro;

- **Regression Model Results**

  **Table 1 - Results of regression analysis**

  Dependent Variable: CSR

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIZE</td>
<td>0.4947</td>
<td>0.0883</td>
<td>5.6017</td>
<td>0.0001</td>
</tr>
<tr>
<td>ROA</td>
<td>4.5860</td>
<td>1.0727</td>
<td>4.2754</td>
<td>0.0011</td>
</tr>
<tr>
<td>C</td>
<td>3.6245</td>
<td>1.8578</td>
<td>1.9510</td>
<td>0.0748</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.7592</td>
<td>F-statistic</td>
<td>18.9132</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.7190</td>
<td>Prob(F-statistic)</td>
<td>0.0002</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>2.7121</td>
<td></td>
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</tbody>
</table>

Table 1 presents the results of pooled regression analysis, the OLS method. The model explains 75.92% of variation in corporate social responsibility, with significant F-statistic (R² = 0.7592; This indicator shows how much from the total variance of the dependent variable is determined by the independent variables). So, this means that the corporate social responsibility is influenced by these two variables. The remaining 24.08% were influenced by other variables which are not tested in this study.

Regression analysis is used to find how significant the influence of each independent variable, return on assets and company size, toward corporate social responsibility as the dependent variable.

**Hypothesis analysis**

The first hypothesis states that company profitability positively influence toward corporate social responsibility. This research result shows that p-value is 0.0001 < 0.05 in the positive direction, so H1 is accepted. It means that profitability has influence corporate social responsibility of the romanian companies. Management thinks that corporate social responsibility activities is like investment activities that will give positive return to the company. This is particularly supports the research done by Bedi (2009), that identified in his studies that there is a
positive relationship between financial performance and social expenditure, the correlation coefficient for the same is 0.974.

The second hypothesis states that company size influence on corporate social responsibility expenditure. This research result shows that p-value is 0.0011 < 0.05 in the positive direction, so H1 is accepted. It means that size has influence corporate social responsibility of the Romanian companies. This is particularly supports the research done by Uwalomwa(2011), a result of coefficient of determination of 0.89 and p-value is 0.000, what reveals that exist a significant positive relationship exists between the size of firms and the level of corporate social responsibility.

• Conclusion

The existing studies on the relation between corporate social responsibility expenditure and corporate financial performance provide mixed results. We have investigated the relation between corporate financial performance, size and corporate social responsibility using a sample of Romanian firms; corporate social responsibility is measured by the corporate social expenditure.

The data showed that the amounts committed to social responsibility vary from one company to the other.

Based on the results of hypothesis testing which has been carried out it is concluded that company size and company profitability has a positive effect on corporate social responsibility expenditure. The reliability of the corporate social responsibility data is an important issue, as data from different sources have significant differences regarding how to evaluate the corporate social responsibility performance of a firm.

This study used a model that examined the effect of financial performance and company size with the corporate social responsibility as a dependent variable. Future studies are expected to improve the model by adding variables that affect corporate social responsibility. This study is still subject to a number of limitations. Since we only employ data for a single year, future studies are suggested to incorporate a longer time span to provide more reliable insights on corporate social responsibility. Our sample size is relatively small, mainly because information on the budget corporate social responsibility expenditure are few, but know the area where the company carries out its projects.

As it is becoming increasingly important for companies to integrate social and environmental concerns in their business strategies, it is important for managers of these companies to understand the relationship between financial performance and corporate social responsibility.

References


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