DOES CORPORATE SOCIAL RESPONSIBILITY (CSR) IMPACT ON FIRM PERFORMANCE? A LITERATURE EVIDENCE

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Abstract

The shouldering of social responsibility by firms is an issue that continues to generate mixed considerations, debates and thoughts by different subsets of the corporate world and the academia. The proponents argue that "it fosters and promotes ethical behavior by managers, and this has a positive impact on firm reputation". In other words, shouldering social responsibilities is a feeder to corporate reputation. However, opponents of CSR "claim that it is expensive and inconsistent with the preeminent goal of maximizing shareholder return." To these opponents this paper presents the case of the festering wound of Nigeria's Niger Delta region so that they can clearly judge which is better**:** to stand on the side of society and the environment and still achieve a high shareholder value or to turn their back on society and risk public odium and the likelihood that shareholders would either risk their stake in the organization or engage perpetually in damage control activities while also remaining in the negative spotlight which is not good for business.

This writer reviews current literature on the subject and urges those who argue that CSR is not necessary to consider what has happened in Nigeria's Niger Delta and the problems oil companies face in that region today. Today, a monster has been created in Nigeria's Niger Delta region out of alleged neglects that good CSR policy and strategies would have nipped in the bud. Thus, for companies to survive in today's world, they must be seen to act in society's best interests.

Key Words
Corporate social responsibility, maximizing shareholder return, Nigeria's Niger delta region, CSR policy & strategies, corporate social performance theory, shareholder value theory, stakeholder theory, corporate citizenship

Introduction

The shouldering of social responsibility by firms is an issue that continues to generate mixed considerations, debates and thoughts by different subsets of the corporate world and the academia. While some argue, as Merrick Dodd did in the 1930s, that Corporate Social Responsibility (CSR) is not only a righteous obligation of firms but one that also comes with great benefits; some others argue, as Adolf Berle also did in the 1930s, that it is against the profit-making function of business, and that it does not even pay the firm any meaningful dividend to become socially responsible. The debate continues.

CSR became noticeable as an issue in the 1930s and increasingly so up to the 1960s. This followed an intense debate by Merrick Dodd of the Harvard Law School and Adolf Berle of the Columbia Law School. Their debate centered on the question: "For whom are corporate managers trustees?" Dodd argued that apart from profit making, corporations existed for another very important function: that of social service to the society. Berle however disagreed with Dodd in this regard. The debate however gradually slowed down until the 1980s when in the wake of hostile takeovers, and gain after the disintegration of Soviet Communism, the aura around the subject got increasingly enlarged as social responsibility became an important issue both for business and in the theory and practice of law, economics, management and politics. With a resurgence of the debate, there are still today proponents and opponents of CSR. The proponents argue that "it fosters and promotes ethical behavior by managers, which has a positive impact on firm reputation". In other words, shouldering social responsibilities is a feeder to the corporate reputation. However, opponents of CSR "claim that it is expensive and inconsistent with the preeminent goal of maximizing shareholder return." To these opponents I present the case of the Niger Delta region of Nigeria so that they can clearly judge which is better**:** to stand on the side of society and the environment and still achieve a high shareholder value or to turn their back on society and risk public odium and the likelihood that shareholders would either risk their stake in the organization or engage perpetually in damage control activities while also remaining in the negative spotlight which is not good for business.

Those who argue that CSR is not necessary should consider what has happened in Nigeria's Niger Delta and the problems oil companies face in that region today. Clearly, a monster has been created in Nigeria's Niger Delta region out of alleged neglects that good CSR policy and strategies would have nipped in the bud. The crises in this part of Nigeria, which have today metamorphosed into militancy that tries to steal the wealth from the oil companies through illegal oil bunkering and oil facilities cannibalization, arose out of perceived abandonment by the oil companies operating in the communities of this region and successive governments over the years. It shows precisely what can happen when early articulation of policy and strategies that align organizations to society and its needs is not taken as a serious business, legal and societal issue. Not only that the people in the Niger Delta region are stakeholders in the operations of oil companies, the environment in this region is also a stakeholder. Well-planned and practiced CSR would have helped prevent the problems that we see today in that part of Nigeria which have also metamorphosed into hydra-headed tentacles. The problems are also more costly to tame today than would have been the case if CSR had been well integrated in the beginning.

The Niger Delta region of Nigeria is only one example but there are so many examples, across the world, of the good CSR can do if applied on time as a deliberate policy and strategy of both firms and governments. There is also the case of cigarette and tobacco companies. It is alleged that cigarette kills by installment, yet firms continue to manufacture and trade on tobacco and cigarette. Banks are also known to make so much money to the consternation of a hugely deprived and hungry society some members of who would have loved to empty the vaults of these banks through several crooked means. But CSR has been the instrument through which some of these organizations are seen to be doing good things in society; hence they are continually tolerated to coexist with the people.

CSR is thus a way of aligning the interests of business firms with those of the society. Apart from being helpful in building firms' reputational assets, CSR helps to mitigate the chaos that would have come against an organization from the society or communities that are either hurt or feel hurt by the activities of organizations. This chaos would be unpreventable in the case of organizations that choose to remain only profit-focused, caring less about what happens to the communities in which they do business. It must however be noted that, as Deb Abbey asserts in his work "Corporate Social Responsibility", **CSR is not about what firms give or can give, it is about how they operate.** This realization may have been the moving force behind the American Security and Exchange Commission's introduction, in the 1970s, of social variables in the information that a publicly quoted company should give to its investors and the general public.

This paper reviews research on the value of Corporate Social Responsibility (CSR) to firms. 'Does CSR really impact on firm performance or otherwise? Should organizations then worry about their social impact or should they just go for profits and trust that everything else will fall into place?'

Theoretical evolution of CSR

The concept of social responsibility has evolved over time in three movements. The first movement is known as the social responsibility movement which saw the responsibility of firms as one focusing on the business obligation of the firm as well as on motivation. The second is the Social Responsiveness movement which emphasizes action and activity by the firm towards meeting some social obligations to society (being responsive). It underscores activities that have projected and defined outcomes that match or contribute to development objectives or policies defined by a firm. And the third, which summarizes into the CSR practiced today, is Corporate Social Performance (CSP) and relates to how well an institution has translated its social goals into practice (outcomes and results). It is also seen by Marc Orlitzky as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships." Put in an everyday language, CSP is a construct that emphasizes a company's responsibilities to multiple stakeholders, such as employees and the community at large; in addition to its traditional responsibilities to economic shareholders. These movements have resulted in an unwieldy field of theories which Elisabet Garriga and Domenec Mele latter articulated into four categories. These categories show what the academic community considers CSR to cover as the central themes researched. These central theoretical themes, as Frans Paul van der Putten notes, relate to ethical values, profits, social demands and community performance. But in mapping out the following four theoretical approaches to the study of CSR , Elisabet Garriga and Domenec Mele note in their work titled “Corporate Social Responsibility Theories: Mapping the Territory”, that the CSR field “presents not only a landscape of theories but also a proliferation of approaches which are controversial, complex and unclear.

a. **Ethical Theories:** This comprises a group of theories each of which ultimately focuses on the ethical responsibilities of corporations to society. In other words, they are theories that revolve around the need for organizations to conduct themselves ethically in their relationship with society as they do their business. Within this packet of theories of CSR are the: Normative Stakeholder Theory, Universal Rights Theory, Sustainable Development Theory and the Common Good Approach.

b. **Instrumental Theories:** These are theories that are concerned with how CSR is used as a tool for maximizing shareholder value, wealth creation and creating competitive advantage. The resounding theme of the packet of theories here is profitability of the firm through the pursuit of activities that also add value to the society by marrying the need of the organization to make profit to the needs of the wider society to survive and thrive.

c. **Integrative Theories:** these are CSR theories with a focus on how firms satisfy social demands by ‘concentrating on issues management, public responsibility, stakeholder management and corporate social performance.’ Under these theories, the firm is genuinely concerned with ensuring that the interests of stakeholders to the business are integrated in the firm's decisions and activities to the extent of incorporating their concerns.

d. **Political Theories:** These theories are concerned with the powers firms have and how these powers can be used to impact on society in a responsible and positive manner. Frans Paul van der Putten in his work titled "A Research Agenda for International Corporate social responsibility" add that in particular the political theories of CSR focus on corporate constitutionalism, integrative social contracts and corporate citizenship.

These theories do not operate in a continuum. In fact, Garriga and Mele advise that each of them presents four dimensions related to profits, political performance, social demands, and ethical values.

In a later study in 2008 by Domenec Mele titled "CSR: Four Theories for a Necessary Practice", corporate social responsibility is portrayed as a subject that evolves, changes or shifts with time such that corporate attitudes and behaviors that were hitherto considered responsible may no longer be seen to be so today. This is because as society evolves, firms are also expected to improve the ways they relate with society and its needs. In this realization, Mele distinguishes four definite theories of CSR. These are:

i. **The Corporate Social Performance Theory:** Based on the need to be both socially responsible and responsive, this theory canvasses that firms and society are symbiotically related, with each party performing its obligations in the relationship. Firms operate in the society and society allows them to do so. In return firms must serve society by creating wealth, contributing to the social needs of society as well as meeting the social obligations which the firms are expected to meet in responsible and responsive manners. When firms abide by this bond of symbiosis, they earn some good reputation which is an invaluable asset. The major weakness which Mele associates with the social performance theory is that under it business firms attempt to give capitalism a human face with less emphasis on the ethics of their business conducts.

ii. **The shareholder Value Theory:** The theory sees the primary responsibility of firms as that of generating profits for shareholders and working hard to raise their stock values. The perception on the performance of social activities by firms for society is that such activities are not necessary except the laws specify otherwise since business firms are created primarily to enhance shareholder value. Without argument, this theory focuses on wealth creation and shareholder value with less commensurate consideration for the well-being of society. But in discussing the demerits of the theory, Mele notes that although wealth creation is part of firms' social responsibility, firms should not take it as the only social responsibility they should shoulder. He argues that it is not also good enough that firms cite compliance with relevant laws as part of meeting their social responsibility because they can comply with the laws and still exploit their workers, consumers and society's resources. In order therefore that they are seen to balance their needs with those of society and achieve sustainable development firms are advised by Mele to considerably integrate their interests with those of their employees, customers, distributors and those of other stakeholders in society, which to oil companies and a host of other companies include the interest of the environment as a stakeholder.

iii. Stakeholder Theory: Chester Barnard noted that "the purpose of the corporation was to serve the society, and that the function of the executive was to instill this sense of moral purpose in the corporation's employees." This is the basis of the stakeholder theory which recognizes that it is the satisfaction of all the legitimate interests of a firm's interdependent constituencies (like the employees, customers, suppliers, the local community, shareholders etc) that can be said to truly lead to the long-term success of that firm. The major argument against the stakeholder theory, Mele notes, is that it can lead to opportunism given that selfish executives can justify their selfish decisions and actions by merely arguing that they are in the stakeholders' interests. Another pitfall is that although interests of specific stakeholders may differ, this theory treats all stakeholder interests as though they are equal, and this does not bring fairness. But, Mele asserts that any attempt by the firm to bring fairness into stakeholder representation will present some difficulty in corporate decision making, apart from portraying the firm as merely existing to service the interests of stakeholders.

iv. **Corporate Citizenship Theory:** This theory conceptualizes firms as corporate citizens who should "actively contribute to the good of society or the world as a whole." Here organizations are seen as citizens who should go beyond just meeting their ordinary legal duties to also participate in the well-being of society, and indeed the world as a whole, even as global citizens. The meaning comprises "the full range of both internal and external corporate activities that contribute to the well-being of society; those which embrace the related concepts of sustainability and corporate social responsibility (CSR)."

The Corporate Citizenship Research Unit of Deakin University explains the subject as "recognition that a business, corporation or business-like organization, has social, cultural and environmental responsibilities to the community in which it seeks a license to operate, as well as economic and financial ones to its shareholders or immediate stakeholders. Corporate citizenship involves an organization coming to terms with the need for, often, radical internal and external changes, in order to better meet its responsibilities to all of its stakeholders (direct or indirect), in order to establish, and maintain, sustainable success for the organization, and, as a result of that success, to achieve long term sustainable success for the community at large." On their own part, the Center for Corporate Citizenship at Boston College takes the subject as "the business strategy that shapes the values underpinning a company's mission and the choices made each day by its executives, managers and employees as they engage with society."

The theory considers firms as citizens who stand shoulder to shoulder with any other citizen that comprise the society. Thus, it clearly notes that firms should come out to take their place in the community as other citizens do and also to play the impactful roles that justify their citizenship. Matthew Haigh and Marc Jones further capture the idea of corporate citizenship in their 2007 work titled "The Transnational Corporation and New Corporate Citizenship"

The major problem with this theory is that it is said to lack conciseness. More than this, it is also difficult develop a global standard for corporate citizenship as it is an issue that should reflect the peculiar circumstances firms find themselves operating in. Notwithstanding these difficulties, many transnational firms are increasingly adopting corporate citizenship as a strategy in their relationship with their communities and the world at large.

Every other debate on corporate social responsibility which are scattered in the literature of management and governance comes under the theories discussed above. More so, the answer to what may constitute a good CSR practice cannot be found in one theory alone. As it is true with management practice, the situation organizations face may call for what will best suffice in the circumstance they face, including the blend thereof.

What is Corporate Social Responsibility (CSR), its Components & Boundaries?

The definitional landscape of CSR is quite unwieldy too. This is not for lack well-focused and coordinated research but primarily because, as Marcel van Marrewijk put it in his work "Concepts and Definitions of CSR and Corporate Sustainability", *it means something, but not always the same thing to everybody.* These varied definitions arise out of the different conceptions of the subject matter. Some see CSR simply as corporate philanthropy; others see it as a subject that focuses on how firms should operate ethically, while some others see it as defining the concerns, respect and care firms bring to the physical environment. From employee perspective it is how the firm dutifully and genuinely shows concerns to the things that affect the employees in terms of welfare, enhanced salaries/take-homes and providing a family-friendly workplace. For example, in a survey of Americans' definition of the socially responsible company conducted by Fleishman Hillard in 2006, 76% of American consumers agree that "to be socially responsible, companies should place employee salary and wage increases above making charitable contributions". Thus, "if companies want to maintain and strengthen their reputations, it will be essential for them to invest actively and visibly in their employees." To the government it may be seen from the perspective of meeting the obligations of tax-paying; to non-governmental organizations it may mean a whole lot of things that may include willingness to provide grants that help to further their activities/social causes, responsible use of renewable and un-renewable natural resources and so on. To social crusaders it may be seen as a move to increase the social value added by corporate activity. Even to religious institutions, the academia and student bodies, CSR mean something relatively different. It is these differing expectations that shape the definitions each constituency associates CSR with, yet every expectation on CSR is valid and must be part of a comprehensive definition of the subject.

Another major problem that has aided the proliferation of definitions on CSR is the ambiguous nature of the boundaries of social responsibility or what truly may constitute social responsibility. Notwithstanding these constraints, research into CSR remains incrementally active especially from the 1950s when the first definition on the subject credited to H. R. Brown was offered in his work titled *The Social Responsibilities of the Businessman.* In this work Brown is quoted by Frans van der Putten to have defined CSR as *The obligation of businessmen to pursue those policies, to make those decisions, or follow those lines of action which are desirable in terms of the objectives and values of our society.* The major problems created by Brown in this definition are that:

- The definition focuses on the social orientation of the firm as if it should live for the society alone and could not reconcile it with the equally very important economic orientation of the firm to itself and its shareholders. After all, for the firm to play social roles to society it must first exist and survive.

- He did not also specify what the desirable objectives and values of our society which he mentioned in his definition are, and whether the objectives and values referred to are the same for all societies so that it may become easier to precisely identify which actions of the firm can be said to be inherently right.

But necessary help came from Archie B. Carroll who in his CSR pyramid identified four components of CSR to comprise the economic, legal, ethical and discretionary responsibilities that society expects of organizations, with economic responsibilities or performance receiving top priority. Carroll's work helped to shape further thoughts on corporate social responsibility and the effort of firms to be at peace with their operational environment and people. The pyramid approach to defining the subject is able to reconcile the contending interests of economic, legal, ethical and discretionary or philanthropic considerations that together comprise what is known as CSR. Again, it affords us the opportunity to decisively understand what the components and boundaries of CSR are. These components define the 'entire spectrum of obligations of business to society' which must comprise any definition that brings out the legitimacy of CSR. Thus for a firm to be socially responsible it must be seen to properly take on economic, legal, ethical and discretionary or philanthropic responsibilities.

- **Economic Responsibilities:** By their nature, firms are brought into existence as economic units that provide goods and services for the society and its members with a primary incentive to make profit in the efficient discharge of this function. Archie B. Carroll, in his work titled "The Pyramid of Corporate Social Responsibility: Toward the Management of Organizational Stakeholders" asserts that the major twist in the firm's existence came at the point when this notion for profit making metamorphosed into a notion for maximum profit making and has ever remained that way. The fact however is that without the profitable performance of the economic responsibility of firms, the other remaining three social responsibilities of the firm will at best be still-born. So, the economic component of firm social responsibility operates on the notion that a firm should perform in a manner consistent with maximizing earnings per share; be committed to being as profitable as possible; maintain a strong competitive position; maintain a high level of operating efficiency and must be seen to be successful by being consistently profitable. So, by their existence, society sanctions that business firms must operate according to the profit motive.

- **Legal Responsibilities:** To be socially responsible also, business firms must be seen to comply with all relevant laws of the land at the federal, state, local government and municipal levels. Therefore, these firms should be able to pursue their legitimate business interests within the prescriptions of the law. Observance of the laws of the land must thus coexist with the economic and other responsibilities of the firm as it conducts its business. So, it is necessary for business firms to operate in ways that are consistent with governmental and legal expectations; comply with various federal, state, local government and municipal laws and regulations; be a law-abiding corporate citizen; be seen as fulfilling its legal obligations; and be seen to provide goods and services that meet legal prescriptions for such goods and services.

- **Ethical Responsibilities:** Firms must also be seen to be truly fair and just in their dealings and relationships with the society at large. This is part of their social responsibility defined within the realm of ethical responsibilities. Firms are expected to respect the views of members of the communities in which they operate as they pertain to what are seen as acceptable and unacceptable practices that guided the evolution and sustenance of such communities or societies. In other words, ethical responsibilities of the firm would include embracing those norms, standards and expectations that clearly reflect the concerns of fairness, justness, morality and moral rights by their different stakeholders like the consumers, employees, shareholders and their host communities at micro and macro levels. The content of firms' ethical responsibilities here would thus embrace the necessity for firms to perform in manners that are consistent with the ethical norms and mores of society; to recognize and respect new or evolving ethical moral norms adopted by society; prevent ethical norms from being compromised in order to achieve corporate goals; define good corporate citizenship to include the doing of all those things that society expects of them morally and ethically; and a recognition that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations. In fact, given that ethics both predates and feeds new laws, it has, through time, aided the broadening of existing laws and, in many cases, helped to inform the creation of entirely new body of laws. Thus, firms should handle their ethical responsibilities very seriously given that failure to do so can give rise to new set of laws that may cage firms so badly as to affect their financial performance. It is sometimes as a result of firms not doing what they are supposed to be doing that new laws are created to address those lapses pointedly.

- **Discretionary or Philanthropic Responsibilities:** Philanthropy can be seen as the voluntary promotion of human welfare or benevolent altruism with the intention of increasing the well-being of mankind, especially by charitable giving. It can also be more pointedly defined as the act of donating money, goods, services, time and/or effort to support a socially beneficial cause, with a defined objective and with no financial or material reward to the donor. Another web definition sees philanthropy as the giving of money, assets, encouragement and expertise to create social or environmental impact. It is different from charity, though both are important. By charity, we refer to something that is purely altruistic, compassionate, and person-to-person, such as providing disaster relief or emergency aid. But by philanthropy, we mean something more strategic and engaging, less intuitive, more thought out, involving an individual giving to an organization that is trying to address the root causes of a problem. But Archie B. Carroll in his treatise in discuss in this paper defines philanthropy to encompass 'those corporate actions that are in response to society's expectation that businesses be good corporate citizens, including active engagement in acts or programs to promote human welfare or goodwill.' Carroll also distinguishes philanthropic responsibilities from ethical responsibilities in that philanthropy is not always expected in a moral or ethical sense. An organization can engage in great acts of philanthropy but still receives serious societal bashing if it makes ethical missteps. Carroll thus argues that although philanthropy is highly desired and priced, it is actually and arguably less important in weight than the other three categories of social responsibility. This is possibly why Deb Abbey quoted in the introductory part of this paper said that CSR is not about what firms give or can give, it is about how they operate. Thus, to be socially responsible philanthropically, it is desirable that firms perform in a manner consistent with the philanthropic and charitable expectations of society; assist the fine and performing arts as well as other vocations in society; managers and employees participate in voluntary and charitable activities within their local communities; provide assistance to private and public educational institutions; and voluntarily assist those projects that enhance the community's quality of life.

Ultimately, the socially responsible firm is a firm that makes profit, obeys the law, is ethical and a good corporate citizen or philanthropist. All these four social responsibility roles must be simultaneously fulfilled by the firm. Each of them is a distinct component of CSR which when taken together comprise the totality of what is meant by Corporate Social Responsibility.

Definitions:

With the above understanding of the components and boundaries of corporate social responsibility, two definitions, in no particular order, are adopted here which this author considers to reasonably address the subject matter. The first is that offered by the world Business Council for Sustainable Development (WSCSD) and reported by Laura Poddi and Sergio Vergalli in their work titled "Does Corporate Social Responsibility Affect the Performance of Firms?" Here CSR is defined as *"the task of a business to contribute to sustainable economic development, working together with workers, their families, the local community and society in general to improve quality of life."* Another interesting definition is that offered in Laszlo Zsolnai's work titled "Competitiveness and Corporate Social Responsibility", in which CSR is defined as *a concept whereby companies integrate social and environmental concerns in their business operations and in their* *interaction with their stakeholders on a voluntary basis."* Zsolnai notes that this definition contains the statement of principles of business ethics which he summarized to include:

- The need to integrate the economic, social and environmental impact in all business operations to create sustainable economic growth
- A focus on stakeholder management and manager's accountability to all the stakeholders, and
- A commitment to go over and above explicit legal requirements to respect the implicit social contract between business and society so that the license offered to firms to operate goes with social responsibility to create sustainable value for all its stakeholders.

Principles for Good Governance of Corporate Responsibility:

"Business in the Community" is a journal for the advancement of corporate governance especially in the area of corporate social responsibility. Its Chief Executive, Stephen Howard, presents eight principles of good governance of corporate social responsibility which should guide corporate boards and management to properly position and integrate CSR, for value, into the everyday strategic focus of the firm. These principles require that the board and management should:

1. Provide leadership and commitment to set responsible business values and standards
2. Think strategically about corporate social responsibility
3. Request regular information on implementation against targets
4. Engage in improving regulation in your business sector
5. Align performance management to reward responsible success over the long term
6. Create a culture of integrity
7. Use internal audits and risk management to secure responsibility; and
8. Regularly review your governance arrangements.

Howard notes that previous research with the Doughty Center demonstrates that corporate oversight of environmental and social impacts makes a difference. He further notes that findings from the Corporate Responsibility Index Analysis (CRIA) demonstrates that companies with corporate social responsibility committees reporting to the board increased from 13% in 2002 to 60% in 2007. The research also shows that those companies with focused board sub-committee on CSR are more likely to better manage their social and environmental impacts, thus performing higher across the overall CR index.

Does CSR Yield Value to Organizations?

Three methods of evaluating CSR performance are the accounting or financial measures, market/stock market value measures and the mixed measures which include the reputational assets accumulated through engagement in CSR programs. Although quite a lot of research have been focused on CSR and its effects on firm value, much of such research are not empirical. Results of empirical research in this regard however follow the pattern of studies elsewhere where findings either establish positive, negative, no or mixed relationships. This segment thus reviews the literature on whether undertaking CSR efforts enhances firms or diminishes them.

This review is split into three to report findings that establish a positive relationship between CSR and firm performance, those that establish negative or no relationship and those findings that are mixed.

Some Studies that Establish Positive Relationship between CSR & Firm Performance or Value:

There is quite a large amount of literature, empirical and otherwise, that positively associate CSR to enhanced firm performance. The evidence appears so overwhelming that even firms with conservative bent to spending are increasingly indulging in CSR efforts. This is true even for Nigeria where a lot of firms are foraying into the practice. A survey of Americans commissioned by the National Consumers League and Fleishman Hillard International Communications, released on May 31, 2006, clearly shows that two-third of Americans would patronize or buy the products of companies they adjudge socially responsible, especially those that are seen to treat their employees very well. In this survey, 76 per cent of American consumers agree that “to be socially responsible, companies should place employee salary and wage increases above making charitable donations.” In the same pattern, 76 percent of American consumers “believe that a company’s treatment of its employees plays a big role in consumer purchasing decisions.” A major implication of this finding is that for CSR to enhance firm performance, its content should not simply depict what the firms favor but what the consumers favor since it is their purchasing decisions that make the difference in the patronage build up to enhance firm financial performance. In a 2008 global study of consumer thinking by **GoodPurpose™** titled “Putting More Meaning into Marketing”, it is shown that almost seven out of 10 (68%) of consumers say that they would remain loyal to a brand during an economic downturn if it supports a good cause.

One major way the practice of CSR has been found to enhance firm value is through the reduction of conflict with stakeholders. A majority of literature underscores this reality, especially as it is noted that firms facing great risks in their environment use CSR to reduce their risk (i.e. risky firms use CSR to reduce their risk). When firms are at peace with their environments and host communities, wastages that arise from conflicts are eliminated and the firm is placed in the right frame of mind to concentrate on the business of adding value to its numerous stakeholders, especially the shareholders. That is why some researchers are noted to assert that doing CSR is good business. Noting that the avoidance or reduction of conflicts is indeed a major contribution of effective firm CSR program, Geoffrey Heal, in his work titled “Corporate Social Responsibility – An Economic and Financial Framework”, summarizes the benefits that are linked to CSR programs to include:

- Reduced risk to the firm
- Reduced Waste
- Improved relations with regulators
- Generating brand equity
- Improved human relations and employee productivity
- Lower cost of capital.

Laura Poddi and Sergio Vergalli in their 2009 study titled “Does Corporate Social Responsibility Affect the Performance of Firms?” also find that CSR firms are more virtuous, and have better long run performance. They add that although such firms may bear some initial costs arising from their involvement in CSR , they nonetheless obtain higher sales and profits due to the reputation effect of their corporate social responsibility involvements or programs, as well as a reduction of long run costs and increased socially responsible demands.

In another study titled “Corporate Social Responsibility – An Economic and Financial Framework” Geoffrey Heal asserts that poor shouldering of CSR cost organizations dearly through the loss of reputation and goodwill. This means that organizations that properly integrate CSR as part of their business strategy, develop good programs to implement this strategy and go ahead to implement the CSR strategy effectively will enjoy high reputation and accumulate high reputational assets. Heal also states that CSR may reduce a firm’s cost of capital through the impact of its “financial cousin” called Social Responsibility Investing (SRI). SRI “suggests that there may be a connection between a firm’s policies towards corporate social responsibility and its position in the capital markets. At the same time, one of the tenets of CSR proponents is that it raises profits in the long run through” reduced risk, reduced waste, improved relations with regulators, generating brand equity, improved human relations and employee productivity, and through lower cost of capital.

A study by Nicholas Mangos and Peter O’Brien investigates whether social responsibility practices of Global Australian firms enhance economic performance of these firms over a three year period between 1993 and 1995. The study titled “investigating Social Responsibility Practices of Global Australian Firms and how those Practices Enhance Economic Success” find that CSR has positive and strong effect on the firm in terms of “community related stakeholder concerns”. The results of the study also suggest that it pays for firms to be moderately socially responsible. Also in another study by W. Gary Simpson and Theodor Kohers titled “The Link between Corporate Social and Financial Performance: Evidence from the Banking Industry”, a solid support was given to the hypothesis that the link between CSR and financial performance of the firm is quite positive. Lee E. Preston and Douglas P. O’Brien also see no significant negative relationship between CSR and firm financial performance. These authors studied 67 large U.S corporations for a period of 10 years, between 1982 and 1992, under the title “The Corporate Social-Financial Performance Relationship” to arrive at the above finding.

Leonardo Becchetti, Stefania Di Giacmo and Damiano Pinnacchio in their study titled "Corporate Social Responsibility and Corporate Performance: Evidence from a Panel of U.S. Listed Companies" oberve that total sales per employee are significantly higher in CSR firms notwithstanding the fact that smaller portion of the financial benefits so derived go to shareholders (suggesting that returns on equity may be lower in CSR firms). But this seeming penalty of relative lower return on equity is compensated for by reduced conditional volatility social responsibility. The authors go further to document that negative consequences are the portion of firms that abandon CSR.

In his work on "Competitiveness and Corporate Social Responsibility", Laszlo Zsolnai states that "caring organizations are rewarded for the higher costs of their socially responsible behavior by their ability to form commitments among owners, managers, and employees and to establish trust relationships with customers and sub-contractors." He went ahead to quote Robert Frank, the author of the book "What Price the Moral High Ground?" who clearly pointed that *people who are intrinsically motivated to adhere to ethical norms often prosper in competitive environments; and that socially responsible firms can survive in competitive environments because social responsibility can bring substantial benefits for firms.*

Arthur A. Small III and Joshua Graff Zivin report the result of their study to indicate that "when a sizable fraction of investors prefer corporate philanthropy over direct charitable giving (e.g. to avoid taxation of corporate profits), firm valuations will be maximized by following social policies that involve strictly positive levels of corporate altruism." In his "Corporate Social Responsibility: Beyond the Numbers", Deb Abbey also assert as follows: "We know that strong social and environmental performance leads to strong financial performance."

Some Studies that Establish no Positive Relationship between CSR & Firm Performance or Value:

A few empirical literature has also not found any positive relationship between CSR and firm performance. One of such studies is that by Leonardo Becchetti and Rocco Ciciretti.

Contributing under the study titled "Corporate Social Responsibility and Stock Market Performance", Leonardo Becchetti and Rocco Ciciretti find that individual social responsibility firm stocks on the average have significantly lower returns and unconditional variance than control sample stocks when controlling for industry effects. Again, a study by Catherine J. Morrison Paul and Donald S. Siegel find that CSR activities may affect the productive impacts of efficiency, technical change and economies of scale, as well as increase input costs composition. In the study titled "Corporate Social Responsibility and Economic Performance", the authors also find that the exact impact of CSR on organizational value or performance are dependent on firm characteristics such as the *motivation for socially responsible actions, tax laws, location and plant age and innovation activities.*

Physorg.com also cites a new study by a University of Arkansas accounting researcher who reports that corporate social responsibility on the part of some of these firms did not prevent a drop in their market value following the Enron audit failure. Again Park, Sun-Young Lee, Seoki reports the result of thirty publicly traded restaurant companies which finds that "corporate social responsibility activities engender no improvement in those companies' value performance (measured as total shareholder return) and only long-term growth in return on equity (ROE).

Some Studies that Establish Mixed Findings

In a study titled "Corporate Social Responsibility and Financial Performance: the "Virtuous Circle" Revisited", Edward Nelling and Elizabeth Webb conclude that CSR is driven more by unobservable firm characteristics than by financial performance. They credit their results to suggest that "stock market performance results in leads to greater firm investment in aspects of CSR devoted to employee relations, but CSR activities do not affect financial performance. They note that CSR and financial performance will appear to be related if traditional OLS regression models are applied to data analysis; but when examined by the use of a fixed effects Granger causality approach, the purported relationship is found to be much weaker, thus dashing any hope of a relationship between CSR and firm financial performance. The authors however state that the "only aspect of

CSR that is driven by stock market performance is employee relations", and this suggests that if CSR activities provide benefits to the firm, such benefits appear to manifest in forms unrelated to financial performance.

Alison Mackey, Tyson B. Mackey and Jay B. Barney in their study titled "Corporate Social Responsibility and Firm Performance: Investor Preferences and Corporate Strategies" find that sometimes when firms begin socially responsible activities their market value will increase and sometimes it will reduce instead of increasing. They also find that sometimes when firms end socially responsible activities their market value will decrease while in some other firms the market value will increase. Also, continuing current socially responsible activities, either by continuing to invest in these activities or continuing not to invest in them, will increase a firm's market value while at other times such a behavior will decrease a firm's market value. This is a classic example of mixed findings. The authors conclude by stating that *only by examining the supply of and demand for socially responsible investment opportunities at the time these decisions are made can the relationship between a firm's social responsibility strategies and its market value be understood.*

Advantages of Doing CSR:

The foregoing review makes it obvious that CSR practice is laden with a lot of advantages for firms, part of which have been mentioned or discussed at several locations in the chapter. In fact, the review undertaken above on studies that find positive relationships between CSR and firm performance are basically a review on the advantages of CSR. However, further advantages are captured in this sub-segment of the chapter. In the study titled "Corporate Social responsibility" Denis Leonard and Rodney McAdam list some advantages of engaging in CSR to include:

- Reducing and limiting litigations
- Protecting brand image
- Improving customer satisfaction, and
- Reducing absenteeism and employee turnover

In addition to the above, Michael A. Levine in his work titled "The Benefits of Corporate Social Responsibility" add that CSR:

- Protects the tangible and intangibles of a firm. A company's brands, intellectual property and goodwill may represent a significant amount of its present and future economic value. CSR adds to the value of a firm's goodwill and thus helps to protect the firm's brands, intellectual property and goodwill.

- Attracts and retains key employees. Talented personnel weigh a company's CSR policies among other factors when deciding where to work, and how long to stay there. So, firms with good CSR records are more likely to attract better high profile personnel than others.

- Helps to build market share. Firms are deriving revenue from "ethically sourced" and "fair trade" products.

In his own contribution, Christian Superti of Cranfield University, in his work titled "Corporate Responsibility – driven towards standardization?" listed the followings as some advantages that accrue for engaging in CSR:

- Improved financial performance
- Reduced operating costs
- Enhanced brand image and reputation
- Increased sales and customer loyalty
- Increased productivity and quality
- Increased ability to attract and retain employees
- Reduced regulatory oversight
- Access to capital
- Increased shareholder value

Yet a blog by Buy1-give1free titled "What are the advantages of corporate social responsibility" discusses such advantages as follows:

- Firms that do CSR are rarely forgotten. People continually retain good memories of organizations that impact different social aspects of society and life and this also impacts on the firm's business positively.

- How employees feel about the firm they work for impacts the bottom line of a firm directly. So, when a firm engages in good CSR for its employees, that firm reaps greater reward through commitment of such staff and the high probability of attracting the best of staff in the industry. A sales person who loves his work and the company will sell more. The receptionist who cares for her company will care for its customers making them feel better and of course they are then more likely to return.
- In this era when firms spend so much in advertising and other promotional efforts in order to gain new customers, CSR is one strategic move that keeps customers coming toward a firm. Customers these days are spoilt for choice. Many customers choose a business on how they feel about the company of the people in the firm. Most purchasing decisions are subjective. Adding subjective and hard-to-measure components, such as solid CSR programs, to a business adds to the perceived value and added benefit customers receive when they shop with the company.
- The 2008 global study of consumers by Goodpurpose™ reported above state that half (52%) of global consumers are more likely to tell others about a brand that supports a good cause over one that does not, with 54% saying they would help a brand promote a product if there was a good cause behind it. Again the same study report states that around the world, consumers have voiced a strong desire for business marketers to link their brands to social action. Forty-two percent say that if two products are identical in price and quality then the one that has the commitment to a social purpose trump key factors would be chosen over the other.
- A new terminology called "Brand Citizenship" has also emerged to further deepen the importance and advantages of CSR. Proponents of this terminology argue that organizations doing CSR should develop brand citizenship whereby a brand acts as a 'citizen brand,' contributing to the community and the society beyond its functional benefits. This is 'doing good' which can translate to the

product or brand 'doing well' and the brand can forge a stronger emotional bond with its consumers."

- Risk management: Wikipaedia also notes that managing risk is a central part of many corporate strategies; and that corporate reputation that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents or non-commitment to CSR. These events can also draw unwanted attention from regulators, courts, governments and the media. Therefore, building a genuine culture of doing the right things within a firm can offset these risks.
- Brand differentiation: In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values. Several major brands around the world today are built on ethical values. Business service organizations can therefore also benefit from building a reputation for integrity and best practice exemplified by their CSR focus. In fact, there is now a push toward what is called "Customer Social Responsibility" to get organizations to extend the frontiers of CSR and show that it truly pays.

Laszlo Zsolnai in his paper titled "competitiveness and Corporate Social Responsibility" also reports the advantages of CSR to include the fact that:

- People (firms) who are intrinsically motivated to adhere to ethical norms often prosper in competitive environments.
- Socially responsible firms can survive in competitive environments because social responsibility can bring substantial benefits for firms.
- In socially responsible firms, opportunistic behaviors can be avoided between owners and managers.
- High quality new employees are easily recruited by socially responsible firms because such prospective employees are attracted by the high moral pedigree of such firms.

- Employees in high pedigree CSR firms are more morally satisfied than employees of other firms and this moral satisfaction generates another type of motivation, that is the motivation to work more even for less salary
- Customer loyalty is gained faster by CSR firms than firms that are not perceived as CSR compliant.
- In CSR firms, trust of sub-contractors can be established more easily than in firms that are not in mainstream CSR.

Disadvantages of CSR

- Increased costs e.g. training, CR reporting and stakeholder focus group sessions
- Implementing difficulties such as: lack of time, and human resources

Conclusion

The practice of CSR is the active subject of much debate and criticism. At the end of the day, despite some companies using CSR as a PR 'whitewash' of their deeper responsibilities, the fact that CSR is in corporate consciousness is a blessing. Almost everybody believes that corporations should be concerned about something more than making money; that they have responsibilities not only to shareholders but to their employees, to their customers, to the communities in which they work and to society at large. Thus, businesses do have wider responsibilities than that of profit maximizing, and CR standards and closer relationships with the stakeholders who encourage them do have a number of advantages for business. Notwithstanding this reality however, many companies still base their socially responsible actions mainly on the belief that these actions provide or will provide some benefit to the company, a strategy referred to as "enlightened self interest".

In today's global economy, CSR has become a core component of corporate strategy. CSR is also emerging as a crucial instrument for minimizing conflicts with stakeholders. CSR can thus be approached from at least two perspectives which include the fact that it evolved from the need to promote human rights and involve rights protection and advancement in development and business policies. It is also a practice/philosophy that arises from the empirically tested awareness that profits can be maximized or more reasonably attained when companies affirm their commitment to establish good relations with various stakeholders, including the social realm. In fact, results of several studies support a positive relationship between corporate social responsibility and firm financial performance.

The International Organization for Standardization (ISO), which is a strategic advisory group on CSR, describes CSR as *a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society.* Denis Leonard and Rodney McAdam also note that CSR includes such considerations as:

- Human rights
- Workplace and employee issues, including occupational health and safety.
- Unfair business practices
- Organizational governance
- Environmental aspects
- Marketplace and consumer issues
- Community involvement
- Social development.

They go further to state that CSR underscores ethics, and that values are the essential bedrock on which businesses are founded and through which success can be achieved and communities developed.

CSR is a voluntary thing; it is not mandatory for a firm to undertake CSR activities but if it does, such a firm should be committed to providing truthful and useful information so that stakeholders can freely make up their mind about the extent to which they want to be involved with the company. However, different companies understand CSR activities differently according to their degree of maturity. Juan Luis Martinez and Ana Aguero in their work titled "The Why, When, and How of Corporate Social Responsibility" state that before deciding on any involvement in CSR firms should reflect on the pros and cons of CSR. To help them analyze the pros and cons, three drivers or catalysts of social action in companies are identified as follows:

- The degree of competition in the sector
- The strength of the corporate values, and
- The degree of sensitivity to social problems.

In Nigeria, the crisis in the Niger Delta can rightly be attributed to either the failure of CSR or its non development as a core ingredient in the development of society and peaceful coexistence of firms with their communities. Had CSR been well developed as a component of core corporate strategy in corporate Nigeria, most firms wouldn't be thinking that the problems are squarely situated at the corridors of the governments and the oil companies. It is an issue for corporate Nigeria, no matter how remotely connected or unconnected a firm may think it is to the Niger Delta Region. The problem is a systems thing just like the erosion menace in South Eastern Nigeria and desertification in Northern are all systems issues that corporate Nigeria should help to address through well articulated CSR efforts.

Therefore, for companies to survive in today's world, they must be seen to act in society's best interests. It is no more a matter of making all the profits while caring less about the people and the very society from whom the money is made.

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