

A Systematic Literature Review—Social Engagement from Business Perspective [†]

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Abstract: The present paper offers a literature review of relevant empirical research articles dealing with the relationship between corporate social performance (CSP) and corporate financial performance (CFP) published during the last five-year period 2013–2018. The results identify that although there is enormous amount of relevant studies presenting an overall positive relationship, there is still a lack of consensus in published results. Therefore CSP-CFP nexus remains a line of inquiry and more researches are needed. The most obvious explanation are different approaches in measuring corporate social responsibility and financial performance.

Keywords: corporate social responsibility (CSR); corporate financial performance (CFP); relationship; review; control variables

1. Introduction

The topic of sustainable development has been frequently discussed not only among politicians, but also between academics and business executives [1]. During that time the number of regulations concerning environmental and corporate social responsibility (CSR) was adopted and the external pressure to include the CSR in business practices has started growing rapidly. Since the CSR concept was strictly rejected by Milton Friedman, who argued that managers didn't have right to use stakeholder money in different way than to maximize their profit, in society the question how the CSR influences corporate financial performance has emerged [2]. From that time firms have begun to be interested in whether the implementation of CSR activities truly brings the expected value and researchers have begun to look for the evidences whether this fact might be confirmed or not. Even though many studies on this topic have already been published in the literature, we come across a positive, a negative or neutral effect [3]. Due to the fact, that available findings are still inconclusive and misleading, the main purpose of this paper is to summarize the results from the articles published during last 5 years and to identify main contradictions in the results of empirical research findings.

2. Theoretical Background

2.1. Sustainability in the Business

From an intra-corporate perspective, CSR activities might contribute to better business management, improving internal processes, decision-making processes and due to that to the reduction of costs [4]. This is confirmed by the results of the meta-study published in 2014, which showed that after 5 years period of time the responsible companies were more successful and competitive than those, which didn't implement this strategy [5]. Moreover, the principles of CSR

have become one of the crucial criteria for creating an investment portfolio, which is already reflected in the global financial markets in form of increasement of sustainable responsible investing (SRI) [6].

2.2. Sustainability in the Economy

As regards economy, two different approaches exist. On one hand, there are proponents of the trade-off theory represented by Milton Freidman, who states, that the primary responsibility of the businesses is to maximize profits, which is in contradiction with the activities that are beneficial to society [7]. On the other hand, there is R. Edward Freeman, who proves the opposite by his stakeholder theory. Based on it the company is no longer responsible only to its owners (shareholders), but also to all interested groups (suppliers, employees, consumers, local community, etc.), because they play a significant role in achieving business goals too [8].

2.3. Sustainability in the Empirical Research

As already mentioned there is considerable number of empirical studies, whose authors are struggling to examine the relationship between CSR and CFP [9]. Although the results of most empirical studies proved a positive relationship [10–19], there are still many authors who deny this statement and identifying a negative relationship [20–24]. Moreover, at the same time, some authors even claim that there is no relationship or that this relationship is neutral [14,25].

3. Research Methods

This paper is focused through the systematic literature review (SLR) on the latest findings related to the influence of CSR on CFP. For gaining relevant studies on the CFP-CSR relationship, the databases: Web of Science and Scopes were selected. The main reason of this choice was the fact, that the both are gathered in relevant high-impact journals. To gain the latest articles, period of time 2013–2018 was selected. Total amount of articles in database Scopus counts 313 and in database Web of Science 593. After scanning and evaluating titles and abstracts of all the articles, 82 articles for further investigation were selected as reported in Table 1. Articles included in this review study are marked with an asterisk symbol in the References section. For gaining more detailed information, the content analysis was employed. The findings were manually conducted and afterwards marked into Microsoft Excel, which allowed the data to be further analyzed.

Table 1. Number of articles returned by each database and articles selected for further investigation.

Database	Number of Articles Initial Search	Number of Articles Second Search
Web of Science	593	41
Scopus	313	41

4. Research Results and Discussion

4.1. Overall CSP—CFP

Although most of reviewed studies published between 2013–2018 indicate positive relationship between CSP and financial performance (59 out of 82), there is still relatively high number of studies (23) which do not support this statement and pointed out the failure in reaching unified general conclusion. As presented in Table 2, negative relationship was presented by 4 studies, neutral by 10 studies and mixed results were reached by 9 studies.

Table 2. A summary of the influence CSP on CFP in the 82 studies.

	Positive	Neutral	Negative	Mixed
Web of Science	32 (39%)	4 (5%)	2 (2.5%)	3 (4%)
Scopus	27 (33%)	6 (7%)	2 (2.5%)	6 (7%)

To understand why those findings are inconclusive and following [26] who claims that one of the reasons of the failure to reach a consensus on the CSP-CFP relationship might be the diverse ways how CSP and CFP are measured, both variables (CSR and CFP) were decomposed and its measuring techniques examined more closely.

4.2.1. Measures of CFP

Even though in previous empirical studies a broad range of measurement of CFP was used, accounting-based and market-based measures are those, which are most frequently employed. The authors who used accounting-based indicator argue that accounting measures better reflect what is really happening inside the company [27,28]. The ones who prefer market-based consider the accounting-based less appropriate and argue that market-based are more adequate for observing future and long-term performance [29,30]. And because both arguments are regarded as adequate as the best manner how to measure corporate financial performance, it is required to use both types of criterion.

4.2.2. Measures of CSP

Measuring of CSR practices has been shown as another reason of missing consensus on the CSP-CFP relationship, which is closely related to the source from which CSR data are gained. Based on the findings as the major CSR data source the external databases are used (44 out of 82). To monitor CSR activities of US firms, Kinder, Lydenberg and Domini (KLD) database has been established. KLD rating database has proven to be the most preferred (27 studies out of 44), which is in line with the findings of [31]. On the other hand, there are some limitations of the KLD database, such as the lack of sector specificity, the treatment of ordinal measures or the problems of aggregation related to the correlation of dimensions [32,33]. It should be clearer now, why some authors (17 out of 82) in trying to overcome some of those limitations relying on alternative databases such as Thomson Reuters ASSET4, MSCI database or Bloomberg, Sarasin&Cie database, EIRIS database or even looking for different source of data (38 out of 82).

Another study on the topic [34] asserts that socially responsible indexes are better source of CSR data than external database. The most important indexes are Dow Jones Sustainability Index Group, FTSE4Good Index Series, Corporate Sustainability Index (ISE), Calvert Social Index, Ethical Sustainability Index or Ethical Index Management System.

Completely different approach to measure CSR was proposed by Kabir in 2017 [35], who reviewed annual CSR reports and Reverte et al. in 2016 [36], who gain CSR data through questionnaire survey created in reflection of the extant literature in the area.

5. Discus and Conclusions

Motivation behind the presented study was the author’s effort to identify main contradictions in the results of empirical research findings and by their explanation to contribute to reaching united consensus on relationship between CSR and CFP. Researchers over the past decades have been seeking to discover some empirical evidence to prove that CSR brings the numbers of benefits and even improves financial performance. Although there are systematic literature reviews aiming to summarise the results and findings on CSP-CFP relationship [37–40], none of them is focused on studies published during last 5 years.

Based on the sample with 82 papers exploring the CSP-CFP relationship the research identifies that although there is enormous amount of relevant studies which presented overall positive relationship, there is still a lack of consensus in published results. The most obvious explanation are

different approaches in measuring corporate social responsibility and financial performance. Some authors use external databases to measure CSP, the others use CSR indexes, annual reports or questionnaires. Even though measuring techniques of KLD database were criticized, it has become the most frequently used database. On the other hand, some authors already acknowledge the limitations of KLD and relying on alternative sources. As regards the CFP, there is a similar problem. Some authors use only accounting-based measurement, some market-based measurement and the others use both. Considering using both measuring techniques for be the best approach as proposed by Margolis and Walsh in 2003 [41] seems to be the most suitable.

Finally, it is my hope that this literature review contributes to the clarification of relationship between corporate social responsibility and financial performance. This study might also help to relax the pressure on business executives to maximize shareholder's profit and provide them with arguments for implementing CSR strategy.

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