International Journal of Engineering & Technology, 8 (1.11) (2019) 127-130

International Journal of Engineering & Technology

Website: www.sciencepubco.com/index.php/IJET

Research paper

The Societal Responsibility of the Companies and Financial Performance: An Unresolved Debate

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Abstract

The purpose of this work is to examine the extent to which the Societal Responsibility of Companies (SRC) affects their financial performance. The data used in this study are elicited from a survey questionnaire administered during a year to a sample of firms.
The statistical tool developed for this research is the multiple regression analysis along with "the quality of management" being used as a control variable. A principal components analysis has allowed us to show that the financial performance of businesses (FPB) is one-dimensional, whereas the SRC has three dimensions.
The results of this research reveal two findings: one suggests that there is a positive link between SRC and the financial performance of businesses, the other highlights the negative correlation between these two variables.

Keywords: *social responsibility, financial performance, quality of management, multiple regression analysis.*

1. Introduction

The Societal Responsibility of Companies (SRC) responds to a major challenge, in proposing a broad representation of the environment of firms, not only in its economic and financial dimensions, but also in its social, human and ecological ones.
The relationship between SRC and the FPB has aroused the interest of many researchers in the field of management, finance, strategy and firm organization, and this is for decades.
The purpose of this Article is to identify the link between SRC and financial performance by focusing on a single explanatory variable to decipher management quality.
In other words: Does management quality influence positively or negatively the interaction between the social performance and the fiscal and the economic performance of the companies?
To answer this question, a necessary detour is carried out by recalling the plurality of explanatory models of the supposed link between the RES and FPB, thus allowing the identification of the main concepts and the theoretical frameworks within which the empirical work is deployed.
Next, the procedural technique utilized in analysing the link and interactions between the RES and PFE is outlined and, finally, the obtained results are presented and discussed.

2. A non-unified theoretical framework

The nature and the meaning of the link between CSR and the CTB can be approached through different theoretical frameworks (Allouche&Laroche 2005a; R. Makni & al. 2009).
With regard to the impact of SRC on financial performance, some works such as the theory of stakeholders, suggest a positive link between the two concepts (social impact hypothesis) since it is supposed to improve the satisfaction of all stakeholders of the company and, consequently, the reputation of the latter, fostering a better economic and fiscal performance.
On the other hand, other views, under a liberal trend, seem to suggest a negative link (trade-off Hypothesis), a socially responsible commitment of the company causing costs and leading to a partial use of its capital causing competitive disadvantages.
Taking the against-foot of previous work, and seeking to assess the impact of the financial performance on the CSR policy of enterprises, the theory of «Slack organizational " or hypothesis of Funds Available (available funding hypothesis) poses that a high level of financial performance allows the company to engage in socially responsible actions.
While in the reverse, the model of the opportunism of managers (managerial opportunism hypothesis) envisages a negative relationship, explaining that leaders whose company previewed the financial performance as being insufficient seek to redeem and to justify themselves by investing more in social actions.
Along with these theories, which clearly imply a unique relationship between SRC and PFE, Allouche and Laroche (2005b) find that other assumptions can be advanced to explain the interaction between the social performance and the financial performance of businesses.

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Indeed, within the framework of a global explanatory model, it is possible to envisage a virtuous circle (positive synergy): a high level of social performance led to an improvement in the financial performance, which offers the possibility of reinvesting in responsibly social actions (Waddock& Graves1997).
In contrast, a low level of social performance led to a decrease in the financial performance which limits, therefore, any responsibly social investment (negative synergy).
Another approach leads to formulate a hypothesis of neutrality of the interactions between CSR and financial performance.
In fact, McWilliams & Siegel (2001) propose a model of supply and demand of social responsibility which allows the explanation of the absence of consensus regarding the empirical results drawn from academic studies. According to them, there would be an offer and a request for social responsibility, in a microeconomic environment standard, which led each of it to invest socially to meet the demands of stakeholders. The balance of the market cancels the costs and profits generated successively by the offer of "social responsibility".
Finally, Barnet & Solomon (2002) have highlighted a non-linear relationship in the form of a U inverted between the social performance and financial performance, indicating an optimum level beyond which the socially responsible investment does in no way improve financial performance.
Briefly stated, we can retain that these models do contradict each other regarding the nature of the link between the social performance and the financial performance of the company. While some of the people support the hypothesis of a negative relationship between these two dimensions, others believe on the contrary that social and financial performance are positively related. Still others suggest the absence of any links and even more subtle links. In order to highlight such conflicting views, we propose a synthesis of the results of the research that has empirically tested these different hypotheses.

3. Empirical research with contradictory and uncertain findings

The link between social responsibility and the financial performance of companies has been the subject of numerous empirical studies over the past few years, in all sectors and countries, particularly in the United States
The findings of these studies are; however, contradictory and are too superficial regarding the meaning and the intensity of this link.
Sanchez &Sotorrio (2007) have studied this relationship relying only on the proxy of the reputation of the business. The results obtained show that this link is *significantly very positive but not linear*, which means for the authors that the impact of the reputation on the financial performance is limited by decreasing returns to scale.
Even if the meta-analyzes carried out by Mr.Orlitzky& al. (2003), J.D. Margolis and J.P. Walsh (2003) or Allouche&Laroche (2005a) seem to highlight a link between CSR and financial performance, they do in no way permit to *confirm the existence of a unique positive link*. Among the elements postulated so far to justify this difficulty, Allouche&Laroche (2005a) insist on methodological considerations.
Following the same line of reasoning, the work of Van Beurden&Gossling (2008), joining Allouche and Laroche (2005a, 2005b) shows in particular that there is no consistency in the research methodologies, no standard definition of the term social performance, and absence of any adequate measurement of its facets. Similarly, the concept of financial performance is often treated in the research in an inconsistent manner.
Crifo and Ponssard (2008) go on to confirm the existence of these methodological weaknesses, particularly with respect to the short length of these studies allowing no control over the whole bias. Additionally, the great diversity of the variables included in the design and conduct of research tends do not allow achieving any relevant comparisons.

4. Work methodology

4.1 The selection of the sample

Given our limited financial resources and time constraints to find the adequate size of the sample, and in view of the difficulties that we have encountered in the conduct of our survey, we selected our sample on the basis of the empirical method of purposive sampling.
Thietart (2003) contends that unlike the probabilistic methods which seek to eliminate the subjectivity of the researcher, the methods of purposive sampling are based fundamentally on judgment. They allow the researchers to choose precisely the elements of the sample in order to meet easily the criteria set by them.
For this purpose, we have opted for the selection procedures of purposive sampling in the choice of our sample focusing on some specific criteria, namely the sector of activity, the cities of location of businesses, and businesses whose workforce exceeds 10 employees.
With these parameters in mind, we have come to select 106 firms; the instrument of data collection is the questionnaire administered directly person to person.
The sample is composed mainly of service companies (40%), agro-food (25%), industrial goods (16%) and energy (8%). The legal form dominating the sample is the anonymous society (46%), then the limited liability company (45%) and other forms representing merely 9%. With regard to the size, 61% are small and medium-sized companies (fewer than 200) and 39% are of large companies (greater than or equal to 200).

4.2 Measurement of the social responsibility of companies

The scale of measurement used is that of Maignan& al. (1999), this scale is but only an extension of Aupperle&al's. (1985) scale.
A questionnaire involving 31 measured statements has been developed based on the Likert scale of 5 points. It should be mentioned that the test of relevance of the ACP called also the KMO test gives a value of 0.941, which is considered as very good.
In addition, the test of Bartlett sphericity is of 3288,292 with a threshold of (0.000). The three selected factors explain 70.20% of the variance of the set of items. The value of the coefficient αCronbach framing the axes are respectively 0.8809, 0.8441 and 0.8824.
These coefficients are satisfactory since the recommended minimum is 0.60. It is clear from this analysis that the first axis F1 can be called "legal-Economic Responsibility (LER)". As regards the second axis F2, it may be interpreted as the "Environmental Responsibility (ER)". The third factor F3 is defined as the "Ethic-Philanthropic Responsibility (EPR)". It should be noted that F1, F2, and F3 become respectively the FAC1- 3, FAC2-3, and FAC3-3 in the new structure of the data.

4.3 Measuring financial performance

As for the *SRC*, this concept has been measured using a Likert scale with six items. We have, as previously stated verified the relevance of the *ACP* using the index *KMO* that is of 0.857, which is considered good.
This result is also corroborated by the test of Bartlett whose value is 302.157 with a threshold of significance of 0.000.
The application of the *ACP* to this scale to measure financial performance allows for the release of a single factor that explains 62.4% of the total variance of the sample. The communalities are superior to 0.5; the consistency of the items of the scale of measurement of the Cronbach alpha gives a value of 0.87.This result shows that this concept is one-dimensional.

4.4 The effect of control variable: the quality of management

Research has shown that the relationship between *CSR* and *PFE is* not absolute. It must take into account the weight of the elements specific to each company and which are of a nature to moderate the relationship between the two constructs (Ullmann 1985; Waddock&Graves 1997).
The moderating variable helps therefore explaining the way and the process by which an independent variable influences a dependent variable. In order to ensure a great validity of the results, the use of a control variable is often recommended.
In the framework of this research, we wanted to check the effect of the "quality of management".
Graves &Waddock (1999) have shown that the quality of management strongly correlates with the financial performance of businesses, and that it is necessary to take it into account. The theory of the good management argues that there is a strong correlation between practice of good management and SRC. This is due to the fact that the attention given to the area of SRC *improves* the relationship with the main groups of stakeholders, which subsequently leads to a better overall performance.
The positive perception of the company by the external stakeholders could lead to an increase in sales and the reduction of the costs of management stakeholders. To measure the quality of management, we have defined essentially six attributes and we asked respondents to give a score ranging from 0 (zero) to 10 (excellent) to each of its criteria. It is coded as follows: (1) the quality of the products or services offered, (2) Innovation, (3) the financial situation of the company, (4) the ability to attract and retain people of talent, (5) the responsibility toward the community and the environment, and (6) the broad use of the assets of the company.

5. Results and discussion

5.1 Descriptive Analysis

Before embarking on the analysis of the contribution of the *SRC* to the *CTB*, it is appropriate to present the "social responsibility" level of the firms in the sample. The score performed on these 31 items allows us to classify firms into two categories. The minimum is 31 (31 items x 1) and the maximum is 155 (31 items x 5). The average is "no opinion" with a score of 93.
Note shall be made that when the overall score of a company is less than the average of the sample that means a weak corporate responsibility. In the opposite case, it will be known as strong the distribution of firms based on this variable is portrayed below.

Table1: distribution of companies according to their level of "social responsibility"

	Staff	Percentage
Low Societal Responsibility	71	66.99
Strong Societal Responsibility	35	33.01
Total	106	100

Source: Our investigation

The table shows that 66.99% of companies have a weak social responsibility while only 33.01% have a strong one.

5.2. Regression analysis

We want to check the hypothesis that the "quality of management" would be an important factor that may influence the relationship between the social responsibility and financial performance.
The data under investigation comprises both types of companies: those with "high quality management" and those with» low quality management ". These will be analysed separately. In the first place, a regression has been carried out on the sub-group" high quality management ". Then, we moved to undertake the regression analysis for the second sub-group" low quality management ".
Concerning the group which is classified as high in terms of quality of management, there is a linear and a significant relationship between the dimensions of SRC (FCC1-3; FCC2-3 and FCC3-3) and the financial performance (FCC1-2). The regression model is presented in the following manner;

Efp = 1.950 + 0.153 REL + 0.178 REV + 0.170 rep
(14,688) (12,579) (14,392) (14,458)

After this first result, we have decided to carry out the same test with the companies having a "low quality management ". This second regression gives results that are significantly different compared with Fisher's statistics in decline (59,024 against 13,333).
There is a significant linear relationship between the dimensions of CSR (FCC1-3; FCC2-3 and FCC3-3) and the financial performance (FCC1-2). The regression model with «low quality management» is presented in the following way:

Efp = -0, 0922 + 0, 33 *REL* + 0, 0315 *REV* + 0, 0489 *Rep* (-4, 87) (17, 24) (1, 76) (2.566)

What follows from above is that CSR correlates negatively with the financial performance of companies.

6. Conclusion

If the link between social responsibility and financial performance has been the subject of numerous publications in recent years, it is clear from our study that the contradictory results do not lead us to any firm decisions regarding the existence of a positive or negative connection between social performance and financial companies.
The data we have analysed so far has been collected from a survey using a questionnaire administered to a number of companies (106 observations) selected based on a purposive sample. The statistical tool is a multiple regression and the quality of management is used as a control variable.
The search for a comprehensive explanation of the link between corporate social responsibility and the fiscal and economic performance of companies remains a subtle issue or even an impossible goal to achieve. It is our contention that the development of knowledge in this domain relies heavily on the recognition and the identification of multiple factors, which may potentially affect such an interaction.

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