Consensus of the measurement methodology

Business

To determine the correlation existing between social and financial performance gets additional complexity by failure of a consensus of the measurement methodology connected to corporate social performance. Subjective measures are useful in many cases, example being (Heinze, 1976), which involved a research of business students or a survey of business faculty members as per (Moskowitz, 1972), or even fortune rankings by (Schneeweis et al, 1988).

It is considerably unclear what precisely these indicators are measuring. In other studies, the researchers use official business disclosures, which range from annual information, corporate social responsibility to shareholder reports. In spite of the reputation of these sources, it has not been resolved on how calculate empirically if the social performance information disclosed by firms are under reported or over reported. This is because not many companies have their social corporate, responsibility reports independently verified. Such CSP disclosures are prone to questions on impression administration and subjective prejudice.

Waddock and Graves (1997), came up with the Kinder Lydenberg Domini (KLD) rating scheme. In this scheme, each firm in the S & P 500 gets scaling on multiple features, regarded as germane to CSP. KLD mostly uses an amalgamation of surveys, which include; financial reports, articles on accepted press, educational journals (preferably law journals) and government assessments, to evaluate CSP besides eleven dimensions. Founded on this information, KLD composed the Domini 400 Social Index (DSI 400), the functional equal of the Standard and Poors 500 Index for

socially accountable firms. Determining financial performance thought to be an easy task, but it has its complications.

There is also slight consensus on which measurement mechanism to use. Market measures are the main instrument applied by many researchers (Alexander and Buchholz, 1978; Vance, S. C., 1975), however; some use the accounting measures (Waddock and Graves 1997; Cochran and Wood 1984), while others are proponents of both mechanisms (McGuire, J. B., Sundgren, A.

, Schneeweis, T., 1988). Two measures that denote diverse perceptions on how to assess a company's fiscal performance has dissimilar theoretical inferences (Hillman and Keim, 2001) where each is prone to biases (McGuire, Schneeweis, & Hill, 1986). It is obvious that the usage of different mechanisms cause difficulties, in evaluating the outcomes of differently conducted studies. Accounting measures are within a confinement of capturing only past aspects of company performance (McGuire, Schneeweis, & Hill, 1986). They are mainly prone to managerial manipulations, which are likely to be biased, and diverges in accounting procedures (Branch, 1983; Brilloff, 1972).

Market measures are prospective and centre on market performance. Market measures are not vulnerable to divergence in accounting procedures, and symbolize the investor's extra details on the KLD profile, and the social " screen" as denoted by Waddock and Graves (1997), Kinder, and Domini (1997). Consumer behaviours are the studies aimed at informing the marketers, advertisers and public agencies onto how a commodity selection

can be influenced by personality, values, beliefs and perceptions. In cases of marketing reasons, the study of influences is in demography. The context of demography here includes ethnicity, age, family size income, marital status, employment and education. Elements such as sociology, psychology, economics and social anthropology play a crucial role in consumer behavior.

Consumer behavior fundamentally interprets the decision making process of the consumer both in groups and as an individual. It tries to assess what influences the consumer in making consumption behavior like the friends, families and society in general. There exists the testing of the relationship between the social responsibility and the financial responsibility in this entire study. It could be negative, positive or even neutral. The case with the negative relationship adheres to the thinking of individuals such as Friedman (1970) and others in the neoclassical economy. They believe the socially responsible firms have an exceedingly great and adverse competitive advantage.

This is because the costs incurred will fall directly at the bottom line and reduce the profits. These costs could be escaped or held by individuals or the government (Aupperle et al., 1985). On the contrary, several empirical studies have found no linkage between the financial performance and (CSR) corporate social responsibility. Several variables intervene between the two issues that a relationship is very impossible to exist.

The positive linkage claims that the actual costs incurred by the firm are covered with the benefits accrued. A firm can reduce the costs incurred due to irresponsible behavior like neglecting the roles to take care of some

pollution in the environment. This can lead to higher explicit costs incurred by the firm in the long run. The socially responsible companies have very low risks associated to the negative aspect of the study. They will have low costs incurred due to lawsuits as this could be because of the heavy fines for the excessive pollution of the natural environment. These socially negative issues may be very destructive to the entire and valuable reputation of the company.

When looked at the level of a nonprofessional, then there can never be two identical companies where one is socially responsible yet the other is not a member of this valuable club of the corporate socially responsible companies. Expectations are that, one that is socially responsible will certainly have very few downside risks for value and then encounter very few events in its calendar. This could be very detrimental to the line of the profits. In this study, the empirical methods will be in use for the identification of the exact sign of the relationship between the corporate social responsibility and the financial performance. For purposes of this paper, I have employed the use two measures to gauge the corporate social responsibility.

The first measurement method is the rating by KLD for a number of companies. The absolute KLD scores will be converted to a scale with base 10. A score below 10 indicates that the concerns of the corporate social responsibility of the firm are more than the strengths of the corporate social responsibility of the very firm. The other method uses the Domini 400 social index as a template. The measure is a model variable with one being the base line if the firm falls within the index in a specific year.

Zero will score for the otherwise situation. Four hundred and fifty (450) companies have so far survived in the sample after firms that missed either elimination of financial or corporate social responsibility programs. Higher scores are indicative of a better rating for the firm corresponding to several aspects of corporate social responsibility. From the results, the sectors of construction and mining as well as plastic, refining, and rubber have the lower scores. Financial services department has the highest.

Regressions are used on the data for the 450 companies for years 2000-2004. The financial data employed are returns on sales (ROS), returns on equity (ROE), and returns on assets (ROA). When measuring the corporate social responsibility, both the KLD rating and the Domini 400 Social Index are employed. Table 1 provides the descriptive figures for all the study variables. The financial performance acted as the dependent variable and control for the experiment during the hypotheses testing.

Cross- sectional time series regression analysis tested the same hypotheses. The financial performances acted as a control for the industry, debt level and the size of the firm. Corporate social responsibility is the main dependent variable and the measurement of the other independent variables will vary greatly.