

# Measurement of corporate social responsibility



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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.

Table 2: Descriptive figures for years 2000-2004

Variable N Mean S. D.

ROA 650 4. 95 5. 87

ROE 650 18. 75 20. 76

ROS 650 9. 46 10. 56

Debt/Asset 650 0. 45 0. 18

Table 3 gives the correlation matrices for the main variables for the years 2000 - 2004. The Domini index participation and KLD scores are strongly correlated with a probability ratio of less than 0. 001 ( $p < 0. 001$ ). It is significantly noting that both the model participation variable in KLD scores and the 400 Domini Social Indices for the firms indicate significance and positivity of correlation with all the three financial performance measures (ROA, ROE, and ROS) at a value  $p^2 \geq 0. 1$  or better.

Table 3. Correlation matrices for the major inputs for years 1996-2000

KLD Domini ROA ROE ROS LogAssets LogSales

Domini 0. 495

ROA 0. 214 0. 097

ROE 0. 061 + 0. 022 + 0. 104

ROS 0. 113 0. 042\* 0. 339 0. 025+

Log Assets 0. 022 -0. 026+ -0. 222 -0. 04 0. 045

Log Sales -0. 320 -0. 023 -0. 228 0. 005 -0. 056 0. 97

Debt/Assets -0. 12 -0. 09 -0. 57 &nbsp; 0. 079 -0. 28 0. 55 0. 334

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.

The sector of corporate social responsibility has grown greatly in the recent past. However, there is a protracted debate about the value and legitimacy of corporate responses to Corporate Social Responsibility concerns. There are divergent views of the role of the company in society and disagreement as to whether wealth requires maximization to achieve the goals of the company. The data have explored the signs and tests of the connection of CSR with financial performance. The results are indicative of a positive and statistically relationship that is important, agreeing with the proposition that socially responsible corporate performance can be associated with a sequence of bottom-line paybacks. The divergent explanations from these results depend purely on the direction of the causality existing between the profitability and the corporate social responsibility.

There are Arguments in support of the view that firms with solid financial performance have more resources available to invest in social performance domains. These domains are issues like community relations, environmental concerns or employee relations. Companies that are strong financially can afford to invest in avenues with more long-term strategic impact. These strategic plans are factors like providing services for the employees plus the entire community. The allocations have a strategic linkage to an improved

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relationship to the wider community, a better image to the public and an improved ability to bring in employees that are more skilled. On the contrary, companies experiencing financial problems will allocate their resources in projects with low horizon. This is the slack resources theory (Waddock and Graves, 1997).

Other opposing arguments have the view that the financial performance depends on good or socially responsible performance. Meeting expectations of the stakeholders before they become challenging signifies a hands on attention to issues. These issues could otherwise cause litigation or problems in the future. Additionally, socially responsible firms have a superior image of the brand and a reputation that is very positive among consumers. They have the ability to bring in more consummate business partners and employees. The socially responsible companies have a lower probability of risk of the negative events than the companies that are not socially responsible. Companies adopting the corporate social responsibility principles have less risk of corruption and bribery and are more transparent. Furthermore, they are less risky of the negative social events, which could damage their reputation and costs millions in information and advertising campaigns or litigation.

The public on the other hand, views the company as an entity where incase an individual makes a mistake then it would lead to a social error in judgment. The public will judge the whole company but not an individual. Corporate social responsibility has created very significant positive difference in the profits to companies. Negative policies may cripple the economy of the country.