

Relationship between corporate social responsibility initiatives and organisation...



Over the years, many studies have emerged concerning the relationship between corporate social responsibility (CSR) initiatives and organisational performance (Margolis & Walsh 2003; McWilliams et al. 2006). Therefore, this study will examine the interrelations between corporate social responsibility disclosure and organizational performance in a Libyan context. This research project defines corporate social responsibility value as follows: to what extent firms are estimating their corporate social responsibility activities, identifying important CSR activities for organizations in the Libyan context, and how they are managing these issues. Research on corporate social responsibility disclosure and organisational performance is limited in developing countries especially in the Libyan context in spite of concerns from the stakeholders about the impact of CSR activities on organisational performance. This research will investigate corporate social responsibility and disclosure practices in Libya from different companies (manufacturing companies; service companies; banks and insurance companies; and mining companies). In addition, this study investigates the question of how CSR activities affect organisational performance.

Research question

This project will focus on the existence and the extent of the relationships between CSR activities disclosure and organisational performance.

Therefore, the main question to be investigated is:

To what extent is the extent of the association between corporate social responsibility disclosure and organisational disclosure (financial performance, employee commitment, and corporate reputation)?

The following sub-questions have been designed in order to answer the main question:

What is the extent of the association between corporate social responsibility disclosure and financial performance?

What is the extent of the association between corporate social responsibility and employee commitment?

What is the extent of the association between corporate social responsibility disclosure and corporate reputation?

1-2 Scope of the study

This study will focus on four factors, corporate social responsibility, financial performance, employee commitment, and corporate reputation. In addition, it will focus on the local companies and the foreign companies in the Libyan context (manufacturing companies; service companies; banks and insurance companies; and mining companies) except private Libyan companies.

1-3 Research objectives

The research project has three major objectives of this study. First, it will investigate corporate social responsibility disclosure and organisational performance in Libya. Because of lack of research in CSR disclosure in companies within Libya and increasing pressures from the stakeholders.

Second, to explore whether how CSR disclosure affects organisational
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performance in terms of financial performance, employee commitment, and corporate reputation. Finally, this research project seeks to assist firms in understanding the nature of the relationship between CSR disclosure and organisational performance. The significance of understanding this nature stems from one source: firms have incentives to utilise their CSR activities and disclosure in enhancing their value.

The rest of this research proposal is organised as: the following section provides a summary of the proposal research's background, review the relevant literature and framework; theories and the last section shows the research design (sample selection; data collection and statistical analyses) of the proposed research.

background of the study

Because of some major corporate ethical disasters regarding the environment, human resources, and the community as well as a growing demand for public firms to voluntarily disclose about their CSR activities for stakeholders, therefore corporate social responsibility (CSR) has become more than an important issue in the business world. In addition, corporate social responsibility disclosure (CSR) is an extension of the financial disclosure system, which reflects the wider anticipation of society concerning the role of the business community in the economy (Waller & Lanis 2009). Furthermore, with the rapid collapse of cross-border economic barriers and the globalization of business, progressively the role of CSR is being debated in an international arena (Smite et al. 2005). Gray (1987, p. 3) defined CSR as:

” The process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders”.

According to this definition, CSR activities play a relevant role in organisational performance. In addition, CSR includes many activities such as community responsibilities, environmental responsibilities, employee responsibilities, investor responsibilities, customer responsibilities, and supplier responsibilities:

Many studies have emerged concerning the link between corporate social responsibility (CSR) and organisational performance (Margolis & Walsh, 2003; McWilliams et al. 2006). In the business context, Rettab, Brik, and Mellahi (2009) notice that to date, no research focus on the examination of the strategic value of CSR in emerging economies and the consensus between scholars and researchers about the impact of CSR activities disclosure creates more pressure on firms from several stakeholders to enhance their organisational performance.

literature review and research framework

CSR disclosure and organisational performance

Researchers efforts have been made to understand the impact of CSR activities on organisational performance (Griffin and Mahon, 1997; Husted and Allen, 2000; Husted and Salazar, 2006; Marom, 2006; McWilliams and <https://assignbuster.com/relationship-between-corporate-social-responsibility-initiatives-and-organisational-performance/>

Siegel, 2001; Moneva et al, 2007; Orlitzky et al, 2003; Salzman et al, 2005; Schuler and Cording, 2006; Swanson, 1995, 1999; Waddock and Graves, 1997; Windsor, 2001; Wood, 1991; Wood and Jones, 1995; Wright and Ferris, 1997). The above studies found that there is relationship between CSR activities and organisational performance which indicated positive, negative, mixed, or non-significant results. On the one hand, the bulk of studies found that there is a positive relationship between CSR activities and organisational performance (Abott and Mosen, 1979; Bragdon and Marlin, 1979; Graves and Waddock, 1994; Moskowitz, 1972; Spencer and Taylor, 1987; Waddock and Graves, 1997). Furthermore, Rettab, Brik, and Mellahi (2009) revealed that there is a positive relationship between CSR activities and organisational performance in UAE firms in Dubai. On the other hand, some studies reported a negative relationship (Vance, 1975) or no significant relationship (Aupperle et al, 1985; Davidson and Worrell, 1990; Preston, 1978; Spicer, 1980) between corporate social responsibility and organisational performance. However, these findings cannot generalise from western developed economies to developing countries without further research because of different business systems. Whitley (1992) notices that business systems differ from country to another. Therefore, this study will attempt to understand the institutional and managerial characteristics of these economies. The institutional environment in developing countries such as Libya, which has experienced dynamic changes over a short period of time. Libya is considered one of the most producers of high quality and low sulphur oil and gas, and is strategically well placed to take advantage of the Mediterranean and European market. In addition, it is one of a member of the Organisation for Petroleum (World Markets Research Centre, 2002; <https://assignbuster.com/relationship-between-corporate-social-responsibility-initiatives-and-organisational-performance/>

Terterov, 2002). Therefore, Libya possesses a significant world economic standing and has a unique economic and political system. During the last two decades, Libya was under punishments from the Security Council and was a pariah from international investment and with development almost totally frozen. However, from 2000 Libya is opening an office in Libyan capital (Tripoli). Knipe and Venditti (2005, p. 2) explains that “ The city is coming in from the cold and Libya, a country endowed with Africa’s largest reserves of oil, is about to make its mark on the regional and global economy”. The overriding influential factor that shapes and regulates the attitude and behaviour of the Arab society, including Libya, is the Islamic religion. This is, according to Ali (1996, p. 6), due to the fact that “ family and other social institutions still command the respect of almost all individuals regardless of their social backgrounds. These institutions utilize Islam to sustain their endurance and influence...Islam is a comprehensive religion that regulates not only the ascetic but also the worldly tendencies. Almost all social, political, and military precepts are covered in the Quran along with the piety of the soul and moral aspects of individual behaviour.”

Libya has an especial system which is based on what is called (the third Universal Theory) inside the (Green Book). This system tackled the economic problem such as wages for production. Furthermore, these development in Libya leads unequal welfare distribution and unlimited market opportunities that formed high incentives for opportunities behaviour. Moreover, business media shows unscrupulous firms resorting to socially irresponsible practiced to win high profits at the expense of employee welfare, costumer safety, and the environment. Although the government made some laws to regulate

firms conduct, many companies monitor and enforce regulations (Mellahi, 2007; North, 1990). In spite of the will political actors in most emerging economies such as China, India, and UAE to disclose CSR activities on fast economic growth on pollution, customer protection, and labour practices, CSR remains a low level of disclosure in these countries compared with western developed countries (Rettab et al, 2009). In addition, CSR disclosure has still be a low level compared with western developed countries (Al-khater and Naser, 2003). Therefore, Libya has the same condition, as it is emerging economic. In Libya, there is no research about the impact of CSR disclosure on organisational performance. This (figure 1) shows the relationship between CSR disclosure and the factors of estimating of organisational performance.

CSR disclosure and financial performance

Financial performance considers one of the most important studied indicators of the strategic value of CSR (Orlitzky et al., 2003). Researchers have started the empirical study of corporate social responsibility (CSR) and financial performance (FP) over three decades ago in western countries. There are two types of empirical studies of the relationship between CSR and financial performance. The first set uses the event study methodology to measure the short-run financial impact when companies appoint in socially responsible or irresponsible acts (e. g Hannon and Milkovich, 1996; Margolis and Walsh's, 2003; Orlitzky et al, 2003; McWilliams and Siegel, 2000; Posnikoff, 1997; Wright and Ferris, 1997). The relationship between CSR and FP was mixed in the results of these studies. For instance, McWilliams and Siegel revealed no relationship, Wright and Ferris(1997) found that the <https://assignbuster.com/relationship-between-corporate-social-responsibility-initiatives-and-organisational-performance/>

relationship between CSR and financial performance was a negative relationship and Posnikoff was a positive relationship. In addition, Margolis and Walsh's found that 4% of the 160 studies examined considered a negative relationship between CSR and financial performance, 55% a positive relationship, 22% was no relationship, and 18% reported a mixed relationship. Furthermore, Orlitzky et al (2003) achieved another meta-meta-analysis and revealed similar results. While other studies are not similarly stable concerning the relationship between CSR and short-run financial return (McWilliams and Siegel, 2001).

The examination of the nature of the relationship between measures the long-term financial performance and a measures of CSR is the second set that is used from accounting and financial measures of profitability (e. g Simpson and Kohrer, 2002; Mahoney and Rebots, 2007; Aupperle, Carroll, and Hatfield, 1985; McWilliams and Seigel, 2000; McGuire, Sundgren and Schneeweis, 1988; Waddock and Graves, 1997). They also gained the same results in these studies that were mixed. Waddock and Graves; Simpson and Kohrer found a significant positive relationship between CSR and profitability, Aupperle et al. found no relationship, McGuire et al. revealed that subsequent performance was less closely related to CSR than prior performance. Aguilera et al. (2007) argued the relationship between CSR and financial performance. He found that there is a strong evidence of a positive and significant association between them. In addition, McWilliams and Siegel (2001) examined the relationship between two with a regression model that measures financial performance as the dependent variable while social performance as the independent variable for the period 1991-1996 for 524

large companies. They reached that there was no link between a CSR and financial performance if the regression model is properly specified.

Moreover, Simpson and Kohers (2002) tested the relationship between CSR and financial performance in the banking industry. The community Reinvestment Act (CRA) was used as a social performance measure. They found that there is a positive relationship between CSR and financial performance. Griffin and Mahon (1997) revealed that the relationship between CSR and financial performance was mixed between a positive and negative relationship. However, most of the findings found a positive relationship. Furthermore, Moore and Robson (2002) analysed the link between CSR and financial performance of eight firms. They used the derivation of a 16-measure social performance index and a 4-measure financial performance index. They depended on statistically significant results. They found a positive relationship between CSR and financial performance in spite of small numbers of firms. Mahoney and Reborts (2007) also examined the relationship between CSR and financial performance in a large sample of public companies of four years of panel data in Canada. This study yielded no significant relationship between them. Yet, they revealed a significant relationship between some CSR activities such as environmental and international activities and financial performance. Finally, Rettab, Brik and Mellahi (2009) in the UAE market as an emerging economy such as Libya did the latest study of corporate social and financial performance. They tested the relationship in 280 industries (Manufacturing, Trading and repairing services, Hotels and restaurants, Real estate, rental, and business services, Education, Banking and financial services, Mining and quarrying, and Others). Although there are some challenges that have contributed to <https://assignbuster.com/relationship-between-corporate-social-responsibility-initiatives-and-organisational-performance/>

ineffective engagement with stakeholders and the lack of communication of CSR activities, they found a strong positive relationship between CSR and financial performance.

All of the studies above were done in western countries and US except Rettab, Brik, and Mellahi study. This indicates that there is limited research that has investigated CSR disclosure and financial performance either in developing countries. In addition, no known study that has examined the relationship between CSR and financial performance in Libya. Therefore, this study will attempt to contribute in this area and may facilitate more intensive research on CSR and financial performance links outside of western countries and US markets in the future, especially in Libya as developing country and emerging economic. Based on the above, this study hypothesis that:

H1: There is a relationship between CSR disclosure and financial performance.

CSR and employee commitment

In recent years, employee commitment is one of the most studied indicators of the strategies value of CSR. According to Jaworski and Kohli (1993, p 60) defined employee commitment

“ the extent to which a business unit’s employees are fond of the organisation, and see their future tied to that of the organisation, and are willing to make personal sacrifices for the business unit”

Carroll (1979) notices that CSR and community contributions and reflects the way in which the firm interacts with the physical environment and its ethical stance towards consumers and other external stakeholders. External CSR on internal and external information sources including the media and their personal experience within the company may be expected to base their employee opinions about these activities (Gilly and Wolfenbarger, 1998; Maignan and Ferrell, 2001). (Ashforth and Mael, 1989; Dutton et al., 1994; Gavin and Maynard, 1975; Maignan and Ferrell, 2001) expected that there is a positive relationship between CSR and employee commitment.

Furthermore, Albinger and Freeman (2000); Backhaus et al (2002); Greening and Turban (2000); Maignan et al (1999); Peterson (2004); Turban and Greening (1996) revealed that there is relationship between CSR and employee commitment. At the same time, relationship between procedural justice and affective commitment may be expected a positive because employees may be expected to identify with ethical organizations (Brammer, Millington and Rayton, 2005). The existing literature provides compelling empirical support for these arguments; a strong relationship has been found between the ethical climate of organizations and job satisfaction (Koh and Boo, 2001; Viswesvaran et al., 1998) and studies of the relationship between organizational commitment and procedural justice suggest that they are positively and significantly related (Cohen-Charash and Spector, 2001; Meyer et al., 2002). Albinger and freeman (2000); Backhaus et al (2002); Greening and Turban (2000); Peterson (2004); Turban and Greening (1996) illustrated that a firms social responsibility deals with matter to its employee and expect to have a positive impact on employees commitment. In addition,

Maignan et al (1999) expected that firms that disclose in CSR activities might
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enjoy enhanced levels of employee commitment for two reasons: they have devoted to ensuring the quality of workplace experience, and they inform their stakeholders about social issues such as the welfare of the community or the protection of the environment.

Rupp et al (2006) noticed that employees' perceptions of their firms CSR activities lead their perceptions of the firm. In addition, firms that disclose CSR activities work to ensure their employees protect through fair and socially responsible practices (Rupp et al, 2006). Thus, it can be seen that firms that engage in CSR activities will appear a positive relationship with their employee commitment because they might earn employees commitment compared with firms that do not engage in CSR activities (Aguilera et al, 2007). Existing a positive relationship between CSR and financial performance is more likely to lead a positive relationship between CSR and employee commitment. Rettab, Brik, and Mellahi (2009) explored that there is a positive relationship between CSR and employee commitment in the UAE market.

Most of the studies above indicated that there is a positive relationship between CSR and employee commitment, whereas few studies found a negative, no significant and fixed relationship between them. In addition to that there is limited research that has investigated CSR disclosure and employee commitment either in developing countries especially in Libya. In addition, no known study that has examined the relationship between CSR and financial performance in Libya. Therefore, this study will attempt to contribute in this area and may facilitate more intensive research on CSR

and employee commitment links outside of western countries in the future, especially in Libya. Therefore, the proposed research hypothesis that:

H2: There is a relationship between CSR disclosure and employee commitment.

CSR and corporate reputation

There is many research which provides evidence to defined that corporate reputation is " a pivotal intangible resource that contributes to a firms competitive advantage" (Rettab, Brik, and Mellahi, 2009, p. 377), " precisely because the development of a good reputation takes considerable time and depends on a firm making stable and consistent investments over times"(Roberts and Dowling , 2002, p. 1091) . Emerging CSR lead to enhancing corporate reputation whereas non-emerging CSR lead to destroyed corporate reputation for a firm. According to McWilliams and Siegel (2001, p. 120) CSR " creates a reputation that a firm is reliable and honest" . Similarly, Bhattacharya and Sen (2003) " builds a reservoir of goodwill that firms can draw upon in times of crisis"

It is clear that the relationship between CSR and corporate reputation in developing countries or emerging economies is not explicit. Although the link between CSR and corporate reputation is not straightforward in emerging economies, the link between CSR and employee commitment is observed because employees are able to observe there firms CSR activities, the impact of CSR on corporate reputation (Rettab, Brik, and Mellahi, 2009, p. 377). They can observe in the national media or by their eyes or in the annual report. Communicating effectively with wide range of stakeholders

enable firms to demonstrate their ability to enhancing corporate reputation. Therefore, firms operate in accordance with social and ethical criteria, they are able to create a positive reputation, while failing to do hence can be a source of risk to their reputation (Branco and Rodrigues, 2006).

The growing attention to reputation has helped to increased number of different construct measures (Helm, 2005). Fombrun (1998) engages six criteria that appear to dominate the construction of reputation in the public eye: community involvement, employee treatment, product quality, financial performance, environmental performance and organizational issues. Most of these criteria represent some CSR activities. Lewis (2001) lists similar criteria but with an emphasis on responsibility: product quality, customer service, treatment of staff, financial performance, quality of management, environmental responsibility and social responsibility. The reputation criteria showed by Schultz et al. (2001) are based on environmental responsibility, price, human resources, internationalization, financial strength and importance to society. Therefore, all of these criteria affect corporate reputation. Fanning (1990) and Peterson (2004) noted that recent corporate experience in the oil and pharmaceuticals industries have emphasized negative consequences for corporate reputation that is more likely to flow from inappropriate behavior towards the environment or consumers. At the same time, Brammer and Millington (2005) recent studies have found positive relationships between corporate reputation and CSR activities and Hess et al, (2002) has shown the similar relation between corporate involvement in social causes and reputation. Finally, Rettab, Brik, and Mellahi

(2009) found that there is a positive relationship between CSR and corporate reputation in the UAE market.

Most of the studies above were done in western countries and US except Rettab, Brik, and Mellahi study. This indicates that there is limited research that has investigated CSR disclosure and corporate reputation either in developing countries. In addition, no known study that has examined the relationship between CSR and corporate reputation in Libya. Therefore, this study will try to contribute in this area and may facilitate more intensive research on CSR and corporate reputation links outside of western countries and US markets in the future, especially in Libya as a developing country and emerging economic. Regarding the conflict about the expected direction of this relationship, this research project hypothesizes that:

H3: There is a relationship between CSR disclosure and corporate reputation.

Gaps in the literature

After reviewing the literature, this study identified the following gaps: firstly, there is no published study that has examined the link between CSR disclosure and organisational performance in Libya. In addition, the number of researches is limited that has investigated the impact of CSR disclosure practices on organisational performance either in Australia or internationally. Furthermore, the linkage between CSR and organisational performance in Libya is implicit because there is not any study about this relationship. Finally, most of the previous studies about the organisational performance

have not financial performance, employee commitment, and corporate reputation in the measurement performance.

Contribution

The points that follow will explain how the study contributes to knowledge.

First, this research will contribute to the literature relating to the relationship between CSR and organisational performance. There is a lack of research that have focused on CSR disclosure and organisational performance. There is only one study that focused on CSR and organisational performance in EAU. Furthermore, this contribution of this study is not restricted to the Libyan environment. It is extending to the wider field of CSR research. It will be especially relevant for western countries, US, and developing countries. Secondly, this study will develop comprehensive definition and measures for CSR disclosure and organisational performance. Thirdly, it extends prior research that links the CSR disclosure with the financial performance, employee commitment, and corporate reputation, by investigating the association between CSR disclosure and organisational performance. Finally, this study is the first known study in Libya to investigate the interrelations between CSR disclosure and organisational performance, because of no published study about CSR and organisational performance, this study will provide insights on CSR and organisational performance and whether the relationship between CSR disclosure and organisational performance in Libya context is a positive, negative, or mixed.

4. 0 Theory:

This section will focus on theories and the study's development of hypotheses that will be used in developing these hypotheses. This study will investigate the relationship between the three constructs by using the hypotheses development. These three constructs consist of the relationship between CSR disclosure and financial performance, employee commitment, and corporate reputation that will lead to the nature of relationship between CSR disclosure and organizational performance.

4. 1 The relationship between CSR disclosure and organizational performance (financial performance, employee commitment, corporate reputation):

In this section, the researcher will attempt to explain the nature of relationship between CSR disclosure and organizational performance (financial performance, employee commitment, and corporate reputation) by focusing on the theoretical development of the hypothesis. The first theories are stakeholder, legitimacy, and economic theories that claimed that firm should provide their stakeholders all information about their firm's performance in spite of different interests. Stakeholder theory considers "the success of an organization depends on the extent to which the organization is capable of managing its relationship with key groups, such as financial and stakeholders, but also customers, employees, and even communities or societies." (Beurden and Glossling, 2008, p 408). In addition, the concepts of CSR and stakeholder theory are fundamental to the study of business and society (Maron, 2006). Thus, these theories focus on an importance of a correlative relationship between a firm's disclosure and key

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groups. These theories attempt to answer some questions about this relation, such as: how far a company has performed its roles in accordance with the stakeholders need. Customers, for instance, need to know whether the product sold by the company does not use woods from illegal logging or whether it uses production technology that causes pollution. In addition, how organizations communicate with those stakeholders. Furthermore, is their firm's performance matching the stakeholders' demands? Moreover, how stakeholders evaluate the performance of these organizations? Gray et al (1995) and O'Donovan (2002) point out (as cited in Deegan 2006, p 295) that " legitimacy and stakeholder theories are overlapping with small differences in explaining the firms' behavior toward the society". Whereas, Stakeholder theory posits that organizations are performing to fulfilling the expectations of particular stakeholders who are able to impact on their performance, legitimacy theory posits that companies attempt to disclose more information about their performance so that they maintain their legitimacy within society (Deegan 2006). Although there are many studies that found the relationship between CSR activities and organizational performance (financial performance, employee commitment, and corporate reputation) a positive relationship, there is a negative and mixed relationship. Thus, these theories have been supported by some studies such as Beurden and Gossling (2008).

Second theory is that Maron (2006) has stated (as cited in Beurden and Gossling, 2008, p 410) that unifying theory of the corporate social performance (CSP) and corporate financial performance (CFP) relationship should be included because this theory determines two opposing forces-

CSR- related rewards and costs which after that can give explanation all the possible relationships between CSP and CFD.

Social identity theory is provided an explanation for the link between CSR activities and employees work attitudes by a review of the literature (Turker, 2009). Therefore, this theory considers one of the most significant theories that support CSR disclosure and its impact on employee commitment.

Voluntary disclosure considers one of the most important theories that support CSR disclosure and its impact on organizational performance especially financial performance. This theory shows that high performing companies disclose more about their performance to improve their market value. There are many companies especially; superior companies are more likely to experience a rise in their share price and market value after promoting CSR information. In addition, Dye (1985) investigates whether large companies disclose information to avoid themselves from poor performing companies. He found that high quality firms voluntarily disclose more information (non- proprietary) to discriminate themselves from poor performing firms. Regarding to CSR disclosure especially environmental disclosure relationship with firms performance, these firms tend to disclose their information about CSR activities to obtain several benefits from this disclosure (Dye 1985; Verrecchia 1983).

All of The theories above can be applied to investigate the relationship between CSR disclosure and organizational performance regarding to financial performance, employee commitment, and corporate reputation.

Firstly, corporate social responsibility (CSR) is an issue of continuing interest

in the business world, there is a growing demand for companies to voluntarily disclose information regarding their CSR activities in their annual reports for the stakeholders. Because of that, some companies in the Libya context may voluntarily disclose about social activities, which are influencing society. In addition, these firms can reduce the impact of CSR disclosure on their companies and gain some benefits such as financial performance, employee commitment, and corporate reputation when they disclose CSR act