
**EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON
ORGANIZATIONAL PERFORMANCE: A CONCEPTUAL AND
LITERATURE REVIEW**

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ABSTRACT

Sustainable development is considered as or can be one of the ways in achievement, progress, and benefit for organizations. Organizations use and utilize this source to require a system on which they can rely upon and keeping in mind the end goal to recognize openings and associated risks and to make, realize, control, and upgrade the sustainable goals of corporations which to be both progressively viable (for themselves and the overall population) and increasingly productive in terms of monetary.

Based on the content analysis and literature review, this paper review and proposed the conceptual framework on the Corporate Social Responsibility (CSR) and its effect on Organizational Performance of Pakistan's retail banks. It is conceptual type of research which possesses four hypotheses, first Independent Variable is CSR and Four Dependent Variables such as, Organizational Performance (OP), Financial Performance (FP), Employee Commitment (OC) and Organizational Reputation (OR) and these are not proven in this research. This paper suggests that by initiating the practices of corporate social responsibility can improve the performance of the organization and also increase its financial position, commitment level of the employees and improve the overall reputation or the company. Different literature suggests that this research could be done with primary as well as secondary sources sometimes the researchers have used mixed form of methodologies, this study is based on secondary data using internet which is one of the powerful tools to generate the data. Researchers conclude and give some suggestions for the future research work with the discussion on previous literature review.

Keywords: Corporate Social Responsibility, Organizational Performance, Financial Performance. Employees Commitment, Organizational Reputation, Banking Sector, Organizational execution, Pakistan

INTRODUCTION

CSR, itself, is a wider term, and has no any fix definition. The definition of CSR can be varying time to time depending on corporation's

economic, business, societal environments (Berger *et.al.*, 2007; Carroll *et.al.*, 2010).

“Corporate Social Responsibility (CSR) is known as the continuous dedication or loyalty by business to work in ethical manner and participate to development of economy enhancing the quality of life of the workplace and workers’ families including the local communities as well as the society at large” (Holme and Walts, 2004). Now CSR has moved from imaginations to actuality so, a number of researchers founded it necessary for corporation to measure their important duties and responsibilities in the society and do social and moral standards to their business activities as well as for society (Lichtnstein *et.al.*, 2004). It is observed that, Corporate Social Responsibility is the responsibility of every corporate body to take care of the interests of a local community and society on the whole. Even though the main motive of any business is to earn and maximize its profit, but their investment in CSR activities, beyond their own interest, contributes towards the welfare of the society. Through doing CSR activities business could also be able to make good relationships with employees, customers, stakeholders and the government. All this suggests that the business organizations should take initiatives for the development of the society and should perform their operations according the structure of internal and external environmental moral values (Wenwu *et.al.*, (2013). Internal for their employees and external for the society and environment, according to Ali *et.al.*, (2010) sustainable growth and good image in society are the two important aspects of an organization, therefore, corporations are advised to focus the amount which is spent on CSR now a day is considered as an investment rather expenses.

Banking sector is amongst the leading service sectors of Pakistan, which play a very vital role in the development of the economy of a society and country. Banks provide many benefits to the society’s economic growth, like they work as the financial intermediaries, by alleviating cash flows, between savers and borrowers (Levine, 2005; Shen and lee, 2005; Beck *et.al.*, 1999, 2010). In the words of King and Levine, (1993) a sound banking system is like a pitch to uninterrupted prosperity. Malik *et.al.*, (2015) suggest that anti-monetary fraud and welfare of the society, are two main types of CSR activities that banks perform. Former deals with anti-money laundering, illegal money, and policies related to Know Your Customer (KYC). Later deals with firm’s commitment for the welfare of society, i.e. the banks investment in charity and social responsibility. Although, prior work (Retlab *et.al.*, 2009); Wu *et.al.*,

2013) suggested that use of CSR can help corporation build a strong bond with employees, and subsequently improve employees and organizational performance. However, little research has focused on the fundamental issues related to CSR in banks in Pakistan, such as does CSR have an impact on organizational performance in Pakistan? If yes, then to what extent CSR affects organizational performance and, on the segments, /aspects like Financial Performance, employee commitment and organizational reputation? In order to address these issues, this research investigates the role of CSR in banking sectors in Pakistan and impact of CSR activities on its organizational performance. The rest of the paper proceeds with literature review followed by conceptual model, hypotheses and ending with conclusion.

LITERATURE REVIEW AND ITS RELEVANCE

The researchers begin their research work by perusing and investigating the issues of research work for which it is significant for them to know and acquainted with both past hypotheses and investigates the distributed work in the previous literature. To check the familiarity, they need to keep up the collected and recorded data. Each research needs the survey and review of the past and related studies and literature to know the findings and make them smooth form for the right direction and conduct of the research.

The literature review is likewise helping to framing the hypothesis, data information and measurable statistical techniques to solve the issues further, the review of the literature can help to know the gaps, which can further define the objectives, framing hypothesis and interpret them.

More or less, with the assistance of literature review, authors can recognize proper procedure, reasonable research structure, strategies for estimating the variables, different techniques of investigation and performing different field of perceptions to light up the murkiness in the zone of their research.

METHODOLOGY

Content Analysis: The literature review is the outcome of content analysis along with other methodologies, for example, interpretation and understanding of the current literature. The systemic methods of content analysis are scientific approach which is used to observe and analyze the information (Budd *et.al.*, 1967). It is by all accounts fit in the construction of literature review since it is very adaptable (Cascio and Aguinis, 2008), to abridge the multidimensional investigation of Corporate Social Responsibility.

Selection of the Article and Journal: The literature review is set up by resulting of Laplume *et.al.*, (2008) the approach and selection of the paper is used by Harzing's (2001) and the list of quality journal papers are selected by watching their impact factors.

LITERATURE REVIEW

From past few years several researchers have centered on the relation between the CSR and OP as a result of researchers have found that corporate social responsibility may be a more potential and useful driver for the structure of the corporation and the financial performance of the companies (Reverte, *et.al.*, 2016). "CSR is an idea whereby organizations incorporate environmental and social interests in their organizational activities and in the mutual contact with the participants on a voluntary basis" (European Commission, 2001). There are so many motives for an organization to follow CSR, e.g. reacting to some wants of stakeholders, to improve the organizations performance, increasing corporation image, create loyalty in customers, and ignoring lawful endorsements (Basu and Palazzo, 2008; Doh and Guay, 2006). Researchers consider the CSR has direct and indirect influence on the OP through corporate business activities, corporate culture, social and ecological aspects. Social dimension means action of the organization for the welfare and interest of the society and the ecological dimension means the organization actions are for the preservation of the environment.

CSR practices are mainly done in developed economies. CSR knowns has been raised by Western companies, however understanding of CSR practices are determined by the institutional setting inside the country (Fifka and Pobizhan, 2014; Fransen, 2013). But from the previous couple of years, problems on CSR between developing countries have gained attentions in no time as a result of the conception of CSR is additionally raised in developing countries too (Memon *et.al.*, 2014; Zhang *et.al.*, 2014).

Although CSR has great impact on the performance of the organization, but many studies shown mixed results some studies shows great positive impact (Waddock and Graves, 1997; Johnson and Greening, 1999) while other shows negative impact of CSR on OP (Davidson and Worrell, 1988; Bromiley and Markus, 1989).

Many different scales have been developed by the researchers to manipulate the organizational performance. Literature evidences that they considered the financial scale to measure the OP such as ROE, ROA, growth scales net income after taxes, net interest income, non-net interest

income (Richard *et.al.*, 2009). Recently the scholars focused on the multi-dimensional, multifaceted and very comprehensive framework of the organizational performance which is not only depended on single construct (Quinn and Rohr Baugh, 1983; Rojas, 2000).

So, this paper will focus or insight its other dimensions which shows their impact directly or indirectly on the organizational performance (i.e. financial performance, employee organizational commitment and organizational reputation). Because studies show that not only financial practices, but the non-financial practices also effect the performance of the organizations. (Black *et.al.*, 2001; Capelli *et.al.*, 2001; Dowling, 2002; Wiklund *et.al.*, 2003; Wade *et.al.*, 2004; Smith, 2005; Helm, 2007 and Lakhali *et.al.*, 2008).

For this regard, this research aims to fill the gap by interpreting the effect of CSR activities on the performance of any corporation by focusing on both financial as well as non-financial practices.

When organizations are aggressively investing in the activities which are beneficial for the society which may also have financial benefits and helps an organization to well perform and to develop the new capabilities and resources. Some of the organizations argue that when they are investing in socially responsible activities which create additional cost (Ullman *et.al.*, 1985), while some others organizational believes that when they invest in society it create a good image in the society and by such activities more and more stockholders are attract towards that particular organization which may increase the financial profit rather than cost (Lin *et.al.*, 2009). Some studies show that CSR is positively related with the FP in terms of ROE, ROA (Wen Wu *et.al.*, 2013). Branco *et.al.*, (2006), said CSR provide internal as well as external benefits when they are doing something for the welfare of their employees in return employees will be highly motivated to do their job more efficiently and effectively and become committed towards their organization and organization will gain the internal benefits through financial profit which will be strengthen the organization and support the organization to perform well. "socially responsible employment exercises like honest rewards, some risk-free and strong operating surroundings, coaching opportunities, facilities like health and edges of education for workers and their families, guarantees of service facilities, negotiable operating hours and job flexibility, will give direct and positive edges to a business and society by accumulated morale and productivity and minimized workers' absence and turnover ratio. Also, the firm can get

productivity promotions and it can also save recruitment and training costs incurred on the employees” Branco *et.al.*, (2006:121).

The reputation of a corporation is considered to interchangeable with corporate environment such as corporate culture, its image and status (Sirsly *et.al.*, 2008). Organization reputation is an intangible asset that can be viewed as to provide an uninterrupted competitive advantage (Barney, 1991; Carter *et.al.*, 2006; Frombrun, 1996; Roberts *et.al.*, 2002). As said by Branco *et.al.*, (2006:123), “by presenting that they perform the business activities consistent with the social criteria and moral norms and values companies will increase their name within the business world, whereas ignoring to follow the CSR is a reason for poor name.

Reputational capital relies upon nonpartisan help. Along with these lines, it's made once a firm can get support from its partners: like commitments of the workers, loyalty of the clients, appeal to financial specialists, coordinated effort of accomplices, ideal guideline, supports from extremist groups, authenticity from the network, and ideal inclusion from the media. This study focus on how an organizations reputation may benefit the firm over time when organizations invest in external social actions, there are many studies shows that good corporate reputation has various advantages which include generate profit margins, cost savings, capital gain and lower risk over a period of time (Carter *et.al.*, 2006; Fombrun, 1996, 2001; Fombrun *et.al.*, 1990; Roberts *et.al.*, 2002). Attributed as key to the success of firm (Hall, 1992 & 1993)

A key side of organizations reputation is stakeholder's groups' and their perceptions concerning however well the organization's CSR initiatives and outcomes meet stakeholder's expectations that result in social and environmental values. In this regard, CSR has power to influence these perceptions, and maximizing the earning potential of organizational reputation (Unerman, 2008). Luo *et.al.*, (2006) examined that CSR has a positive market value which can help the managers to attain greater financial benefits and competitive advantage over a specific time period which increases the performance of the organization.

CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Corporate Social Responsibility with Organizational Performance: Literature evidences that there is the biased relationship between the CSR and OP. with the help of these literature it's easy to know the impact of CSR on organizational performance (Wood, 1991; Wood *et.al.*, 1995; Wright *et.al.*, 1997; Griffin *et.al.*, 1997; Waddock *et.al.*, 1997; Husted *et.al.*, 2000; McWilliams *et.al.*, 2001; Windsor, 2001;

Orlitzky *et.al.*, 2003; Salzman *et.al.*, 2005; Swanson, 1995, 1999; Husted *et.al.*, 2006; Marom, 2006; Schuler *et.al.*, 2006; Moneva *et.al.*, 2007). Few studies show positive relation while some other shows negative and mixed results. Oyerinde, A. *et.al.*, (2018) studies on Corporate Social Responsibility and Performance of Oil and Gas Industry in Nigeria. The results of this study indicated that there is a significant relationship between corporate social responsibilities and performance of oil and gas companies in Nigeria. The study recommended that the companies should review the expenditure items of their corporate social responsibilities.

Retlab *et.al.*, (2009) explored three variables that are OP, FP and OR. They collect data from 280 firms through survey instrument n found the positive relation between CSR and OP as well as with FP and OR. Dawkins, (2004) stated that when an organization works for the social welfare, it increases commitment level of existing and current customers and attracts the potential employees. Malik *et.al.*, (2015) surveyed the positive relation between CSR activities and organizational performance in the presence of organizational culture. Brammer, Millington *et.al.*, (2007) and Stawiski *et.al.*, (2010) suggested that organization should involve their employees in such type of activities as well as in decision making of CSR activities so, Employees will get the motivation from the activities and operations of corporations CSR and it will ultimately leave a positive impact on organizations performance.

Results are inconclusive because some show positive While other show negative relationships between CSR, FP and OP Thus it is worthy of further investigation to check these relationships.

Corporate Social Responsibility with Financial Performance:

The relation between CSR and financial performance of the organization is very important issue and several studies suggested that there is a positive and direct relation between CSR and FP and many studies evidence there is negative relation of CSR with FP. McWilliams *et.al.*, (2001); Alexander *et.al.*, (1978), Cochran *et.al.*, (1984); Stanwick *et.al.*, (1998); and Arx *et.al.*, (2008) studied on the impact of CSR on FP. Friedman(1970) asserts that main motive of any organization is to earn profit. Preston (1990) have opposite viewpoint, he was arguing that social issues can be just as important as market factors and they must need the same attention. Wen Wu *et.al.*, (2013) studies the link between CSR and FP and suggest that by doing CSR activities organizations can improve their financial position in term of ROA, ROE, non-Net interest income and Net interest income. Scholtens and Dam, (2007) and Dem *et.al.*, (2009) evidence CSR has no effect on the profit of bank. Lin *et.al.*,

(2009) determined that CSR has positive and direct impact on long term FP but there is not much significant relation of CSR with short term FP. The study also suggests that by increasing the immediate profitability which may be reducing the risk to damage brand evaluation in long term. Lin, W. *et.al.*, (2019) determined that Impact of Corporate Political Activity on the relationship between corporate social responsibility and financial performance: A dynamic panel data approach: the study revealed positive association between CSR and FP. Dakito *et.al.*, (2017) said in their study that the CSR and FP has amice relation between them.

Corporate Social Responsibility with Employees Commitment:

Many studies describe the relation of CSR with Organizational Performance, Financial Performance, a very few studies focus on the relation of CSR with Employee Organizational Commitment and what are the perceptions of employees towards the CSR activities. Researchers also suggested to do more and more CSR activities to motivate the employees so that organization can built the strong bon of relation with the employees to be committed with organization success and high turnover. Researcher studied on CSR including Moskowitz, (1972); Turban *et.al.*, (1996); Albinger *et.al.*, (2000); Greening *et.al.*, (2000); Backhuas *et.al.*, (2002); Dawkins, (2004); Peterson, (2004); and Ali *et.al.*, (2010), identified the impact of CSR on employee's performance and the performance of the organization. The research suggests that Corporate Social Responsibility rises the commitment of an Employee with his job as well as Organization due to the reason that CSR also aims to the development of workers including their families. Sharma *et.al.*, (2009) describe the HRM can play a vital role by contributing towards Corporate Social Responsibility. The study concluded that there is the significantly positive relationship of CSR on the commitment of an Employees and the reputation of the organization.

Lee *et.al.*, (2017) This examination investigates the issue by considering internal and external CSR motives and attributions as directing factors between the perception of CSR, commitment of organizations and organizational citizenship behavior.

Malik *et.al.*, (2015) analyzed the connection between activities of CSR and performance of the organizations within the sight of organizational culture. They recommend that when campiness step up to the plate activities for their workers and include them in basic leadership in regard to which activities ought to be attempted identifying with community, workers and environment then companies can get greatest advantages and at last the performance of the companies will increase.

Corporate Social Responsibility with Organizational Reputation: White CSR gained a great attention of researchers from many years their focus is to identify the impact of CSR on FP mostly, many researchers found that no any organization can increase their financial position directly they should take initiative steps to make CSR familiar with the customer and other stockholders. Start with the CSR actions which can enhance initially the corporate reputation and these actions may be up to the mark of stakeholder's expectations. So, the organization's reputation is the "general appraisal which defines that the company is running its operations under the stated rules and regulations" (Fombrun, 1996:37). However, an organization's individual reputation is also related to the accordance of whole industry in which it is operating (Shamsie, 2003).

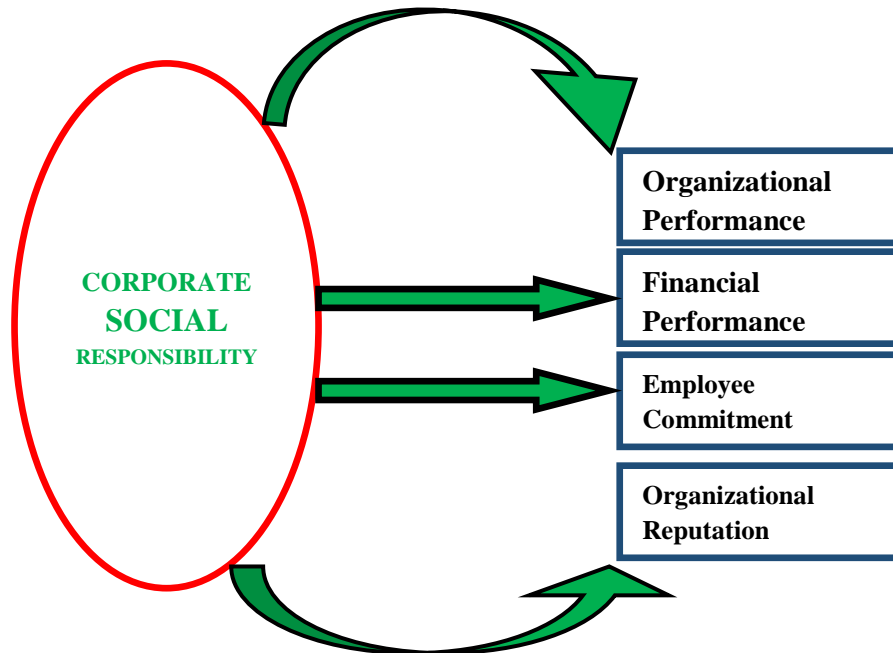
When focusing on how firm reputation may benefit the organization over time, there are many rewards and benefits of holding a good reputation such as being capable to generate superior margins, cost savings as, as well as affirmative yield to invested capital, least risk fears (Fombrun *et.al.*, (1990; Fombrun, 1996, 2001; Roberts *et.al.*, (2002); Carter *et.al.*, (2006). Attributed CSR as pitch to the success of a firm Hall, (1992 & 1993), but only durable to, or for limited time zone (Carter *et.al.*, (2006), and very far from a longer period (Wiggins *et.al.*, (2002), determining the development of good image with CSR activities is very important to improving firm's systematic plan of action. Sirsly *et.al.*, (2008) explored the significance of CSR with corporate reputation. A verity of social actions was examined with reputation, attribution obtained from multiple stakeholders and the time factor over which reputation is affected. The study concluded that with the evaluation, the social practices in corporations can help and motivate the managers for planning long term strategies to assure wider cohesiveness by those practices to raise the reputation of firm.

Martín-Samper *et.al.*, (2019) worked on the CSR practices of hotels, culture of organizations, reputation of the organization and performance of the organizations. As indicated by the results of their study, culture of the organizations impacts various components of CSR. The outcomes further show that hotels utilizing CSR practices which are identified with workers and clients which fortify the reputation of the hotels. Through the improvement of the reputation, CSR activities influence positively the performance of the firms.

Odriozola, M. *et.al.*, (2017) examined on: Is corporate reputation associated with quality of CSR reporting?, evidence from Spain. The

outcomes uncovered that the nature of manageability detailing improves the probability of having higher and good reputation of the corporations.

CONCEPTUAL FRAMEWORK



CONCLUSION

This research is exploring the relationship of CSR with organizational performance and CSR effect on Organizational Performance in particular banking industry, the literature review tells no any particular definition of CSR. CSR has three areas, Environmental, Economic, and Social dimensions. It is to be think like that bank has three key areas in the context of CSR.

The conceptual framework shows how the performance of any banking sector can be improve with the CSR activities. A field study will consequently constitute the subsequent stage of this work. Researcher believes that it will empower other researchers to additionally refine the theoretical structure proposed in this paper.

The conceptual study possesses five variables one is independent and four are dependent variables. This research proposed conceptual framework which further helps the upcoming researchers to develop the hypotheses and prove hypotheses with the help of this conceptual

framework study by taking the primary data with the development of questionnaires survey, interviews and secondary data from financial reports of the public as well as private retail banks and the relationship of CSR practices and its effect on performance of banking sector.

It is recommended that the banking and non-banking sector should properly utilize the CSR practices so that they can get more outcome from their employees. The organizations should have focus on the awareness of the CSR practices to the external stakeholders through media and other communication channels that these organizations are socially responsible and give benefits to the externals, this will increase the reputation among their stakeholders.

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