

Abstract

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A SUGGESTED FRAMEWORK OF CSR and ITS EFFECT ON FINANCIAL PERFORMANCE OF THE EGYPTIAN COMPANIES

Purpose Corporate Social Responsibility (CSR) is growing in importance nowadays for companies in order to figure out if there is really any link to financial performance. CSR implicitly is about keeping a promise between companies and their societies however, it would be more valuable to have a positive influence on companies' financial performance. Proponents of CSR advise companies to proactively acknowledge the interests of stakeholders and integrate their voice in corporate decisions. The study aims at filling this literature gap in a Middle East context, namely Egypt. Design/methodology/approach The study is quantitative in nature. It focuses on the relationship between CSR measures and financial performance. We measure corporate social responsibility through six stakeholder groups that were used to develop a composite measure of CSR namely, employees, customers, investors, community, environment and suppliers. However, corporate financial performance was measured by return on equity and return on assets. There were also some controlling variables that should be taken into consideration to manage the complicated relationship between CSR and FP. Primary data on CSR were collected through questionnaire survey that was distributed to 50 companies which are listed in the CASE (Cairo and Alexandria Stock Exchange). In addition, secondary data on Financial Performance (FP) of the participated companies were obtained from their websites and/or other publications. Findings Findings indicate that the companies that apply more responsible policies have better financial performance than the ones which do not apply such policies. In addition, findings suggest that successful CSR policies towards main stakeholders could be profitable to Egyptian companies. This finding is robust to alternative model specifications and several additional tests, providing evidence in support of stakeholder theory. Results yield useful insights to both academics, and corporate practitioners about the importance of synthesizing CSR with financial performance. Research limitations/implications A more longitudinal and qualitative research is required to investigate how financial performance does respond to applying CSR. A quantitative study should be conducted on a larger sample to generalize findings to all industry sectors. Practical implications CSR is mainly driven by external pressures such as pressure of international financial institutions. This will only encourage passive compliance without any effective change on the ground in terms of greater corporate accountability and transparency. Companies should emphasize their Corporate Social Performance (CSP) to develop enhance their financial performance. Social implications Results depicted that if the individuals themselves can conduct their businesses in an ethical and sustainable manner, then companies will inevitably conform to any external CSR standard that will be utilized in the development of financial performance and, thus, the welfare of the society. Originality/value Limited research addressed the relationship between CSR and financial performance in developing countries. This study draws a model that investigates the relationship between applying CSR and financial performance of the some listed companies in a developing country, namely Egypt. Results of this research might be of interest to companies, practitioners, and society concerning the role of CSR in improving financial performance.