Impact of alignment towards corporate social responsibility on financial performance

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Abstract

This study aims to analyze the possible impact of the alignment of Moroccan SMEs towards the social responsibility of the company on their financial performance; we studied six cases of companies: maritime sector, real estate, transportation and insurance. The results of our research show that the nature of the activity, and internal policy influence the level of impact, on the other hand, based on a semi-directive analysis based on interviews with the directors the results remain mixed between the positive impact, argument about a negative impact and even debate on a neutral or even non-existent impact. Thus, the study joins the current that the fluctuation of financial performance depends on a basket of several criteria that interact with each other.

Keywords: corporate social responsibility, financial performance, degrees of impact, influence criteria.

L’impact de l’alignement vers la responsabilité sociale de l’entreprise sur la performance financière

Résumé

Cette étude a pour objectif d’analyser l’éventuel impact de l’alignement des PME marocaines vers la responsabilité sociale de l’entreprise sur leur performance financière, nous avons étudié dans ce travail six cas d’entreprises : secteur maritime, immobilier, transport, assurance. Les résultats de notre recherche montrent que la nature de l’activité, et la politique interne influencent le niveau de l’impact, par contre en s’appuyant sur une analyse semi directive basé sur des interviews avec les directeurs les résultats reste mitigés entre la mise en avant d’un impact positif, l’argumentation sur un impact négatif et même le débat sur un impact neutre voire inexistant. Ainsi l’étude rejoint le courant que la fluctuation de la performance financière dépend d’un panier de plusieurs critères qui s’interagissent entre eux.

Introduction

In 1705 and since the creation of the first company, the aim was to achieve a financial consideration by producing the maximum to meet the need felt in the market, as it develops this can occur at the expense of the executing hands (as the workers used to call).

Over the years several theorists have conducted studies on work organization, ranging from a scientific aspect favoring performance by time elapsed tasks executed and intended objectives. Arriving at the various human resources schools that have looked after studies to determine how favorable conditions affect employee performance. Even a little in recent years we are no longer talking about human resources but about human capital. This designation gives employers ranging from workers to managers their fair value.

As a result, the last few decades are considered a crossroads of research, studies, consideration of several factors and economic spheres that said that the equation of production /profitability has been enriched to improve all the poles allowing the balance of this equation. In this case the consideration of the extra-financial aspects that was the intrinsic revelation of all his studies.

The social component within each company has seen a remarkable development at the global level. Morocco being an emerging country had to follow the trend. Any form of Moroccan enterprise has become aware of the importance of this component for its development, even for its sustainability in certain sectors, this awareness has been reinforced by the speech of his majesty King Mohamed 6 insisting in which on the importance of intangible capital within nations, at the macroeconomic level and at the level of public and private institutions at the micro economic level. This consciousness had to materialize to prove what the theory has revealed, so a major interest is focused on the social aspect in order to achieve this famous social performance which everyone seeks the secret formula to benefit from its positive impact.

I. Corporate Social Responsibility

Corporate social responsibility is a concept that is becoming increasingly familiar with all spheres and economic conditions, a concept that has long balanced between a mature accentuated in the United States its cradle, and a strong emergence in Europe the continent that has benefited rationally from alignment with CSR, and a development in Africa where the economic fabric is trying to go beyond the legal requirements to cross the threshold of responsible economy.

1. History and emergence of CSR

It is wise to contextualize the emergence and history of corporate social responsibility, which is a concept that can only be understood through its historical journey dating back to the end of the 19th century. Thus, although French jargon did not become known until the 1990s, American literature had known it since 1950 "corporate social responsibility" and today speaks much more of it as "human social responsibility". Noting a century of development of emergence and adaptation CSR has gone through four phases from these allusions of appearance to today's day, the years from 1900 to 1950 that saw the emergence of social concerns, the period from 1950 to 1980 marked by utilitarian purposes, from 1980 to 2000 when the environmental component took the lead and finally from 2000 to the present day where the attachment to well-being is no longer a luxury but a necessity.

The first CSR guidelines were defined by Bowen specifically in his rarely found 1953 book 'Social responsibilities of the businessman' which presents itself as the intrinsic factor of the emergence and prospecting of the business-company relationship, moreover Bowen was the first to have presented
the social responsibility of an executive as a factor of performance. According to Bowen, the first conception of CSR "refers to the businessman's obligations to pursue such policies, to make such decisions or to follow such lines of action that are desirable according to the objectives and values of our society." "It is a question of placing the values recognized in society above personal values and this in a voluntary movement of reason, because the businessman with more power than the ordinary citizen must be able to understand the impact of his action on society."

Corporate social responsibility is a concept that is becoming increasingly familiar with all economic spheres, a concept that also balances between a maturity accentuated in the United States its cradle and a strong emergence in Europe the continent that has benefited rationally and a development in Africa economy that is trying to go beyond the legal requirements to cross the threshold of responsible economy. Moreover, the CSR situation in 2017 is more prosperous than ever the general overview of its development allows us to deduce a development commensurate with its appearance, which means that the United States remains in a leading position in terms of proposing new paths to CSR development. In Europe the situation is not of the same magnitude but is not likely to take long to get there, the emergence of CSR is reaching its peak and studies tend towards optimizing the CSR performance relationship. As far as Africa is concerned, a continent that is still developing has taken time to align itself but has at least managed to move beyond the "social black zone", to go beyond obligations and think about responsible actions; so the continent does not intend to leave the gap as large as that.

2. Performance measurement indicators

Any factor impacting performance either positively or negatively must be translated into numbers and must be measurable; given that CSR strong impact was to follow the same logic, but there are not enough indicators and ratios that allow it to be the reason why, intrinsically, the relationship between the social and the financial based on sector-specific ratios to infer the influence of CSR.

2.1. Financial indicators

Several indicators can be used to analyze the actual health of the company, among others, the rate of return, the rate of return on assets, working capital or cash requirements, the operating cycle of the products, the time frames customer and supplier settlement. They also compare two companies in the same industry and identify the relevance of a merger-acquisition or joint venture in terms of external growth.

2.2. Non-financial indicators

Many studies have confronted the problem of choosing appropriate measures of corporate social performance. KLD measures are the most comprehensive assessments of corporate social performance and social responsibility at present, as they use a multidimensional variable that encompasses a wide range of aspects of corporate performance (Sharfman, 1996). Each aspect is assessed against the benefits of a company and its weaknesses.

II. Performance in the light of CSR

1. Performance of the times

The company is an entity made up of people who make decisions, work together, design, manufacture, find solutions, and seek mutual improvements and satisfaction. The performance of a company is above all a practice that demonstrates the economic effectiveness of this entity, firstly because it favors the balance between the interests of the various stakeholders, namely
shareholders, customers and Employees. Second, because it is not interested in value creation indicators: growth and profitability. Finally, because it is based on the four fundamentals on which the company’s prosperity depends: values, the market, men and a trade. Investing in these four fundamentals is a guarantee of sustainability, competitiveness, productivity and profitability. Performance can be defined as a company’s ability to renew satisfactory (not exceptional) performance in terms of growth and margin over the long term. The definition of performance has become so sophisticated in recent years, through the growing role played by financial logic, that we have lost sight of the essentials. The growth of financial-dominated indicators has contributed to the confusion of the resource allocation system by moving it away from economic common sense. Specifically, a certain single thinking has favored the short term at the expense of the medium term, market value at the expense of operating performance, shareholder compensation at the expense of productive investment, growth at the expense of organic growth, rather than arbitrate them in a balanced manner. The essence of performance can be summed up in two extremely simple concepts. First, organic revenue growth as a true testament to customer performance and the relevance of the offer; then the operating result as a translation of the company’s ability to make the best use of its resources and to pay for the capital invested by shareholders.

2. Assumptions of LINKS between CSR and performance

The link between social responsibility and corporate financial performance has been the subject of numerous empirical studies in recent years. The vision withdrawn from the results of existing studies reflects in part the likely influence corporate Social Responsibility on its economic and financial performance, and on the other hand, the feeling of a fragile and somewhat contrasting bond. Deciphering the methodologies used in this work and their results reveals much confusion, even inconsistencies, both on samples, measurements of variables and relationships tested causally. The aim of this contribution is to provide an advance of academic research on the interactions between social responsibility and corporate financial performance and to propose some ideas and research on the subject.

The empirical literature ultimately attempts to answer two main questions:

Is there a positive, negative or neutral relationship between social and financial performance?

Preston and O’Bannon (1997) illustrate the combination of these questions from a typology of the possible links between social and financial performance. The following table summarizes the main theoretical hypotheses that have been the subject of attempts at empirical validation.

<table>
<thead>
<tr>
<th>Casual Sequence</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>SP Leads to FP</td>
<td>Social impact hypothesis,</td>
</tr>
<tr>
<td></td>
<td>Trade-off hypothesis</td>
</tr>
<tr>
<td>FP Leads to SP</td>
<td>Available funding hypothesis</td>
</tr>
<tr>
<td></td>
<td>Opportunism hypothesis</td>
</tr>
<tr>
<td>SP and FP are synergetic</td>
<td>Positive synergy hypothesis</td>
</tr>
<tr>
<td></td>
<td>Negative synergy hypothesis</td>
</tr>
</tbody>
</table>

Adapted from Preston & O’Bannon (1997, P. 422)

1. Table 1: Typology of possible social-financial performance relationships
These link hypotheses are grouped mainly into three tiers:

2.1. Positive link

It is a good idea to start with the link that was mentioned as the results of the majority of studies on the issue of the link between the two key aspects. And that has resulted in several current studies being based directly on the positive link hypothesis. It tries to validate it and add to the proponents of this hypothesis. Before detailing the two hypotheses we would like to present this link if only briefly. It is a link that can be categorized with the contributions of human resources schools, because the value creation of any entity is done through its stakeholders both internally and externally with different rates of involvement and influence but the impact cannot be denied. So logic says that the disclosure of good values and good practices and the valuation of these parts can only be beneficial for the improvement of the performance, including the creation of values.

2.2. Negative link

And contrary to the two previous assumptions, others claim that the companies that achieve the best social performance are also the ones with the worst economic performance, and vice versa: in this spirit, a negative link between social performance and financial performance predominates. A set of theorists who have judged that the impact of CSR on performance improvement cannot be positive in any way, since socially responsible investments generally are at very high cost and have uncertain and long-term return. what makes CSR, additional expenses that can improve the company's brand image in the very long term but do not improve its performance, so they even respond to the assumption of available funds by stating that if the company manages to achieve a good performance without recourse to socially responsible investment it is useless to invest the profits in the emergence of CSR.

2.3. Neutral link

The third stream of thought is between two schools as they present the same synergy hypothesis. But the interpretation of the link differs, to clarify the difference, the first francophone stipulates the neutral link; since the improvement of a performance depends on the state of the second performance so if one manages to achieve a good financial performance and invests in the social just to have the same level between the social and the financial no creation of value is not appropriate for such actions. But on the other hand are not unnecessary burdens to bear so there is no destruction of value, in other words the return on investment equals the investment itself so no relationship between the two poles is evoked.

On the other hand the Anglo-Saxon school somehow contradicts this logic under the pretext that it is impossible and inconsistent to speak of neutrality between two great poles that can present themselves as the leaders of all business the social and the Financial. So instead of denying the relationship between the two it evokes the term mutuality. If the company relies on its financial performance to achieve social performance or make it at the same level or vice versa it is a non-neutral mutual relationship certainly neither create scent independently of the other but both are in collaboration continues.
III. Research methodology

Dealing with the challenges of the social responsibility of each entity is now a necessity, but enrolling in such a noble approach is not as easy as its appearance. Academic research on the impacts of social responsibility on corporate performance has attracted the interest of several researchers without really asking the question about the extent of this impact. Alignment with CSR allows value creation, but this must first be translated into a battery of indicators. To answer our problem, we have opted for a qualitative methodology with an objective of exploring the reality of a managerial phenomenon. There is at least one reason for such a choice: the weakness of the literature on the privilege between CSR and performance in general, and CSR indicators, in a particulate manner. This methodological choice lies in the ability of qualitative exploratory research to uncover specific characteristics of the use of responsible practices in measuring performance.

As part of this research, we first analyzed the perception of leaders on the impact of CSR on financial performance in Ten Moroccan Companies different to sectors of activity, shared between CSR-labeled companies and other non-labelial companies, and this to have a comparative view. Since the problem of managers, our sample therefore owed companies of a certain size (at least 50 employees). A maintenance guide has been developed and administered for each company, to a responsible financier. These leaders have different levels of education and age group. The interviews were conducted face-to-face, and were lasting between one and a half and two and a half hours intended to highlight the main characteristics and actions of CSR put in place by companies as well as to see the extent of the vision of this practice by these managers and its impact on performance. To better frame our results and discussions, we respected the willingness of the leaders interviewed to remain anonymous.

A comparative study was conducted in parallel to check the (before-after) performance achievement. This study that was conducted on the main ratios that reflect the financial indexes of these structures in two different periods, the first before adoption and the second after alignment.

To do this we rely on three hypotheses with the premise of a zero hypothesis verified:

H0: CSR does not impact performance

H1: CSR significantly impact performance

H2: CSR has a positive impact on the company's performance and performance.

H3: CSR has additional loads that hinder performance.

IV. Empirical Results Analysis

It was wise to divide our analysis into two levels: the first will be devoted to the perception of our interlocutors (leaders/financial), to see their perception in relation to our theme; CSR’s impact on performance. A perception that derives its necessity from the readiness of responsible social actions and which makes CSR fail to be on standard standards, in a second place an analysis of the most significant profitability ratios will take place, implementing certain indicators namely: operating income, net income, turnover and asset totals.

1. Executive perception of the impact of CSR on performance

The first part of the study was carried out with the financial executives of the various companies chosen. This section discusses the financial people's vision of the need for CSR practices in companies' internal systems and their performance impacts. The involvement of interviewees in the
company’s strategies allows them to have a clear idea of the impact of the adoption of CSR practices on performance as well as the determination of a combination between the social, societal and environmental side their entities and overall performance. Several financial executives interviewed said CSR positively influenced the company’s performance. It is added that this is reflected much more on the social side and that although studies still have to decide that the impact can be positive, based on their experiences, the motivation of employees through rewards, their awareness as well as training stakes with them are part of a vision to improve the quality of work. This leads to an increase in performance, according to one of them: "one can decide that on a return on social investment, there is always a feeling but unfortunately is not calculated".

Other financiers who work in large shipping companies began their speeches with their experiences as a financial executive. As an explanation that adopting socially responsible practices is a strategy to acquire more customers, so it is a strategy for commercial companies to aim for a good brand image. Their neutral visions point out that socially responsible practices (CSR practices) help to win the trust of customers who are influenced by subjects who are interested in their health and therefore a CSR-labeled company with a LABEL of respect for the environment and environmental standards will be the preferred. From another perspective, other financial executives somehow agree with the first vision by stating that any responsible practice adopted by the company will certainly increase its client portfolio on the one hand, on the other hand have a good climate, good motivation and good values disclosed within the company and this certainly translates into a positive result. And so, according to one of them: "we cannot afford to do without these socially responsible values."

The results of this perception have been divided between a vision that confirms that CSR positively influences the performance of structures but from a social point of view since it is the only easy-to-introduce and translate component, and a final one that stipulates CSR is one way of doing things by qualifying itself as an element of influence and differentiation.

The graph below summarizes the perception of leaders in relation to the impact of CSR practices on certain indicators: the social climate, environment, turnover...

![Graphic 2: The perceptions of CSR practices](image-url)
2. Analysis of performance indicators in light of CSR alignment

Among the most significant indicators in the analysis of financial performance, the profitability indicators since they relate the translating aspects to the operating, investment and fixed-point aspects, these indicators are:


- ROA (return on net assets): Net income/Total Assets.


- The ROE: (share of profits in capital): Net results/equity.


- ROS: (returns on sales): Operating results/revenue.

The table below summarizes the profitability of the ten companies studied, taking stock of the variation in ROA, ROE, ROS between 2013 and 2018, the two periods differ set slashed by the fact that companies did not adopt responsible behavior in 2013.

<table>
<thead>
<tr>
<th>Companies</th>
<th>INDICATORS 2013</th>
<th>INDICATORS 2018</th>
<th>variation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROE</td>
<td>ROA</td>
<td>ROS</td>
</tr>
<tr>
<td>E1</td>
<td>0.06</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>E2</td>
<td>0.17</td>
<td>0.08</td>
<td>0.17</td>
</tr>
<tr>
<td>E3</td>
<td>0.43</td>
<td>0.01</td>
<td>0.50</td>
</tr>
<tr>
<td>E4</td>
<td>0.06</td>
<td>0.03</td>
<td>0.26</td>
</tr>
<tr>
<td>E5</td>
<td>0.05</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>E6</td>
<td>0.10</td>
<td>0.01</td>
<td>0.13</td>
</tr>
<tr>
<td>E7</td>
<td>0.11</td>
<td>0.01</td>
<td>0.18</td>
</tr>
<tr>
<td>E8</td>
<td>0.13</td>
<td>0.07</td>
<td>0.14</td>
</tr>
<tr>
<td>E9</td>
<td>0.08</td>
<td>0.05</td>
<td>0.31</td>
</tr>
<tr>
<td>E10</td>
<td>0.07</td>
<td>0.01</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Table 3: The profitability of the ten companies between 2013 and 2018

We conduct a student-matched sample analysis so that we could compare the average for the two periods: 2013 and 2018. In the first place we compared the averages of the two paired periods. The difference between the two measurements of each pair is calculated.

That is, D the set of values corresponding to the measurements of the pairs of values. The average D difference is compared to the 0. If there is a significant difference between each two-paired series the D average should be very far from the 0 value.
For most companies, return on equity has increased, this is explained by the sum of capital invested which generates more profit in this case alignment to CSR also had its influence on this increase as it allows companies to establish a good social climate that generates a fairly significant productivity, so the responsible aspect plays in favor of investments chooses who in turn benefits from certain foreign and state subsidies and advantages. While the return on ROA assets is increasing very little, an average of 2% over the 5 years interval, or even non-existent for some structures, something that can be explained by other criteria that influence this indicator. The last indicator that highlights the sales force, an indicator that despite its relevance gives quite mixed results, since it is an indicator quite influenced by CSR, given the improved brand image, productivity and profitability Sales is on the rise; on the other hand, the fluctuation remains quite large, an average of 9%.

The student test confirms the results obtained by the arithmetic tests either obtaining a correlation coefficient that is not significant in relation to the threshold of meaning or alpha-5% that said it does not differ significantly from 0. Since the confidence interval does not contain the 0 value so one must cancel out the null hypothesis, 'CSR does not impact performance'. And as mentioned in the table above the plus-value of the test is much lower than the alpha-5% threshold and therefore this comes to confirm the result confessed by the 95% confidence interval. And so there is a significantly less significant difference between the performance indicators: the ROE, ROA, ROS between the two study periods 2013 and 2018 this joins the first analysis which states that these are indicators that undergo the combination between several criteria, the reason why, even if the difference is quite small, it should not be negligible but carefully considered. As a result CSR has a positive impact on performance, but studies are still struggling to make the most of this impact as companies are not easily encryptable.
From this analysis we can infer several conclusions, but the most intrinsic are:

- Awareness of the benefits of CSR plays a role in aligning with CSR;
- Positive link supporters represent a fairly respectful part of the sample;
- The negative link is rarely put forward so as not to damage the company's image;
- Quantifying the impact of CSR on performance remains far from feasible.

Conclusion

The issue of performance and corporate social responsibility and one of the most discussed topics in the world of investment and financing, studies on the link between CSR and overall performance have so far failed to reach any consensus; the results of these studies vary widely between confirming a positive link and highlighting a negative link. Moreover, despite the abundance of these studies, and the restriction of indicators the debate far from being closed, and leaves room for questioning that legitimizes the interest of studying and re-studying the emblematic question: will CSR be a conviction of creation value if we can measure it?

References


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