The Direction of the Link between Corporate Social Responsibility and Financial Performance: Evidence from Croatia

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Abstract

HIGHLIGHT(S): The detection of the relationship between corporate social responsibility (CSR) and financial performance (CFP) is of great importance for corporate management. Despite a large number of conducted research on this issue, the relationship is still unclear. Thus, it should be determined. This relationship can be dual: CSR could affect the CFP, but also CFP could affect CSR.

BACKGROUND: Stakeholder theory calls for inclusion of larger group of stakeholders into company’s strategy and daily operations. Meaning, companies should incorporate (CSR) practices into their business. To do so, additional resources are needed. CSR activities could cause effects on company’s bottom line, but also CFP could be the most important driver of CSR. The effect of CSR on CFP could be positive, negative, no effect or mixed effect. The same stands for the reverse effect of CFP on CSR.

METHOD(S): For purposes of testing the relationship between CSR and CFP the structural equational modeling will be used. The data for CSR were collected using questionnaire based survey, while data on CFP were collected from company’s financial reports. The sample comprised Croatian companies. Several control variables will be used: size, industry, leverage, multinationality, R&D intangibles, advertisement intensity, stakeholder pressure and existence of any scandal associated with company. Combining quantitative and qualitative data, an attempt to test the causality between CSR and CFP will be made.

RESULT(S): There are four possible outcomes of the research: positive, negative, no – significant or mixed relationship between CSR and CFP, and vice versa.

CONCLUSION(S): Based on obtained results, conclusions will be made. In addition, recommendations for future development of CSR will be provided, taking into account all stakeholders, including shareholders.

Keywords: corporate social responsibility, financial performance, Croatia