

# The Relationship between Corporate Social Responsibility Disclosure and Financial Performance in the Iraqi Companies: Literature Review

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**Abstract**— The objective of this study is to investigate the relationship between Corporate Social Responsibility and Financial Performance in Industrial sector of Iraq. The data is obtained from the annual reports issued by the companies for the period from (2014 to 2018). The correlation research design is will be identifying the relationship between earnings per share, return on assets, net profit margin and CSR. A sample of 30 companies will be chosen of the industrial sector this study will contribute to the finding of empirical studs or CSR and financial performance especially in Industrial sector of Iraq. Will be evaluated this study examines different impacts of positive and negative CSR on financial performance of industrial sector, theoretically based on positivity and negativity effects. Findings suggest mixed results across different industries and will contribute to companies' appropriate strategic decision-making for CSR disclosure by providing more precise information regarding the impacts of each directional CSR on financial performance.

**Keywords**— Corporate social responsibility; financial performance; stakeholder's theory.

## I. INTRODUCTION

The primary object of this study is to portray a review of the available literature on (CSR)-corporate social responsibility. The study has not only cover the studies related to the theoretical background on CSR which has disclosures in Iraq and other countries but also review the studies related to the relationship between CSR and financial performance. Though for the stakeholders, CSR is a crucial tool regarding the source of competitiveness and communication but Iraq business are facing challenge to evaluate activities of CSR regarding social marketing activities, community development as well as public relations. It happens because of the global financial crisis. Organizations of Iraq have tried to develop a framework in terms of CSR activities but still its limited regarding the understating the concepts of CSR and

discourse it. Iraqi companies are facing vast challenges due to sustain and promote CSR.

According to Prayukvong & Olsen (2009) CSR information assists to improve organisation's reputation. Furthermore, there are several studies which have discussed about different theories to explain CSR disclosure such as institutional theory, agency theory, political theory, stewardship theory, stakeholder theory and legitimacy theory as well. Though maximum of those theories have some limitations as those theories offer a single analytical perspective which is not enough to explain the CSR issues.

However, this study has adopted one specific theory which has been used by some others researcher in their study to explain CSR. This one specific theory is stakeholder's theory (Islam & Deegan, 2008) as this is the main theory used to

explain CSR most. Basically, this theory is more focusing on the developed countries such as the USA, UK, and Australia context not countries like Iraq. As CSR is not mandatory in Iraq so its broader conceptual and contextual setting of CSR disclosures is different from the developed countries as well. But still this section of discussed about the stakeholder theory to check its suitability to CSR disclosures in Iraq context.

## II. LITERATURE REVIEW

Corporate social responsibility is one of the most crucial strategic issue for a company as its used to communicate their ethical activities with their several stakeholders group. According to Kotler and Lee (2005) CSR is like a commitment to enhance community well-being through discretionary business practices and contributions for corporate resources. He also mentioned corporate social initiatives as major activities performed by an organization to assists social causes and fulfil commitments to CSR.

The idea of CSR given by Freeman, Harrison, Wicks, Parmar & De Colle (2010) and argued that organizations not only should do right by their consumers, environment and local communities but also with their employees in terms of profit-maximization. Freeman's work maintained to the responsibilities related with good corporate citizenship.

On the other hand, Solomon (2010) are opined that addressing social responsibility is not only good for its investor but also other stakeholders. They also expanded the view of stakeholders by including customers, public interest groups, government agencies or regulators, employees and communities on Freeman et al (2010) idea. Some others scholars also opined their valuable opinion regarding CSR. Such as Kirat (2015) is saying that while firms profit increased CSR also involve the high standard of living for stakeholders. Though several scholars are giving their valuable opinions regarding CSR but they all are agree in one point that there are three essential dimensions of CSR which are environmental, social, and governance (Wang et al., 2016). Such as Lind green et al., (2012) are opined that for the successful leadership, it's essential to promote organizations' corporate citizenship. thereby it is significant to prioritize these four dimensions in a company's CSR practice in order to build its reputation.

### 2.1 Environmental Dimension

According to Flammer (2013), Environmental groups put underline on the environmental responsibility such as the reduction of carbon discharge. In recent era organizations are constantly pressurised by the different environmental groups

to take the environmental responsibility effectively. Such as Klettner, Clarke, & Boersma, (2014) are articulating that organizations are facing constant pressures from different environmental caretakers and activists to behave decently towards the environment. There is some positive finding of adopting environmental responsibility such as enhance material recyclability, a clean and safe environment and better product durability and functionality as well (Owazuaka and Obinna, 2014). Based on this argument, it is hypothesized that: H2: There is a positive relationship between Corporate Social Responsibility towards Environmental and Financial Performance indicators.

### 2.2 Community Dimension

Community can be defined that society where companies run their business. Yin and Jamali (2016) demonstrated that corporate social responsibility is a prime strategy for the organizations to run the business ethically to benefit the welfare of the community. Organizations always play a vital role regarding community development activities. Now-a-days Community development is starting from the community with the help of external companies (Visser & Tolhurst, 2017). Organizations are started to provide support and empower to the groups or individual for changing their communities. Organizations are most interested to contribute those communities where they do business (Visser & Tolhurst, 2017). Based on this argument, it is hypothesized that: H2: There is a positive relationship between Corporate Social Responsibility towards Community and Financial Performance indicators.

### 2.3 Employees Dimension

In CSR employees always play a strategic role as an internal stakeholder. According to Wilder, Collier, & Barnes (2014) by executes several employee motivation strategies, management and leaders can change the employee's behavior and their attitude towards the clients. Increasing employee empowerment is one of major effective actions taken by the management to enhance employee's motivation and maintain employee's morality (Jeon & Yom, 2014). According to Basera (2013) some beneficial programs can be undertaken to enhance employee motivation which are equal opportunities training and development, work-life balance, health and safety issues, decision-making participation and better pay and compensation. Based on the argument, it is hypothesized that: H3: There is a positive relationship between Corporate Social Responsibility towards Employees and Financial Performance indicators.

### 2.4 Customers Dimension

According to Swaminathan, Groening, Mittal, & Thomas (2014) to accomplish a long-term financial performance, organizations are always try to create value for its customers because they are the prime external stakeholders for a business firm. CSR can enhance the loyalties and willingness among the customers to pay best prices for any products Perez & del Bosque (2014). Managers of the organizations also can enhance the loyalty among the customers by creating effective marketing strategies like loyalty benefits, different types of promotion and discounts, product differentiation etc. Based on the argument, it is hypothesized that: H4: There is a positive relationship between Corporate Social Responsibility towards Customers and Financial Performance indicators.

### III. CORPORATE SOCIAL RESPONSIBILITY IN IRAQ

Over the last three decades, Iraqi organizations are starting to involve in CSR disclosure by following developed countries CSR disclosure. Now-a-days Iraqi firms are concerned about the effect of their activities on the communities, on their workers and environment and other relevant stakeholders as well. According to Mohammed,& Hamid (2016) to improve and maintain organizational reputation, Iraqi organizations have been engaged in CSR disclosures since the 1990.

Several frameworks widely used on CSR disclosure at globe. Iraqi firms can adopt some frameworks from them to report their CSR related activities. They can adopt GRI, UN Global Compact and Securities and Exchange Commission of Iraqi (SEC) frameworks though those frameworks have some limitation in Iraq context as basically those frameworks developed for the western countries. Those frameworks are also different from the developing countries especially country like Iraq as Iraqi culture, economy; rules and regulation are different from them. Iraqi companies used to conduct CSR activities voluntarily as there is no clear direction or orders from government towards the companies to conduct CSR.

The study found that in Iraqi annual reports, the most disclosed information is the employee information followed by the environmental information. Beside this companies also disclosed the operational review and chairperson's report in their annual report. Furthermore, researchers added that in the annual reports of Iraqi firm's social and environmental information were inconsistent and irregular. Researchers also suggested that CSR discourse should be legalized in Iraq business as government are supporting the introduction of strong evaluation in Iraqi business.

### IV. RELATIONSHIP CSR AND FP

From the two viewpoints, it can be monitor the analysis of the relationship among CSR and CFP. Among the two viewpoints, first one is the positive viewpoint. According to Hang & Ngoc (2018) first viewpoint recommend that a good CSR practices can create a positive impact on the CFP of the firm or firms in question. Among the two viewpoints, second one is the negative viewpoint. According to Chipeta &Vokwana (2011) CFP is negatively influenced by the actions which are consider to be a good CSR practice.

Ramchander, Schwebach & Staking, (2012) conducted a study found that there is a significant positive connection among financial performance and corporate social responsibility. Study also revealed that companies those who are involved in efficient and credible stakeholder management, they are being rewarded in the CSR announcement with a positive share price reaction. The firms with positives result were added to the KLD and/or DS400 indices while the firms with negative results were removed from the list (Ramchander, Schwebach & Staking, 2012). In an addition, the DS400 index can be defined as an essence with a list of firms which have a better CSR performance compared to their competitor from the same sector or others sector. This study can be an example of financial measurement as it found a positive relationship when using market measures of performance.

A vast amount of research studies proved that there is a significant positive connection among financial performance and social responsibility though a small number of studies have found that this relationship is not positive rather than its negative relation. Such as Chipeta and Vokwana, (2011) conducted a study revealed that BEE transactions may negatively effect on the wealth of shareholder but its depends on some certain circumstances. Study also revealed that depends on some certain circumstances when firm contrasted to the possible benefits, BEE compliance's added cost was needless.

Beside those studies, there is also some others studies were conducted and provide evidenced that there is no significant association among financial performance and corporate social responsibility. Those studies found that neither a positive nor a negative relationship between financial performance and CSR activities and conclude their studies by stating that CSR has no impact on the CFP of a firm.

Table 2. Examples of relationship between CSP and CFP

Country	Period	Sample/Industry	Measure for CFP	Results
Spain	2003-2010	IBEX 35	ROA; ROE	Neutral relationship between CSR and ROA/ROE
Japan	2005-2011	Chemical Industry	Net Income	Positive relationship between environmental conservation costs and net income
Korea	2004-2010	Various industries	ROA; ROIC; Sales growth	Positive impact of CSR in ROA/ROIC and sales growth
Indonesia	2010-2012	Various industries	ROA; ROE	Positive impact of CSR in ROA/ROE
South Africa	2004-2013	Various Industries	EPS; ROE; ROA	Relationship sensitive to the type of financial performance indicator used. Example: in consumer services industry, exists a positive impact of CSR in ROE, but a negative impact of CSR in EPS
Nigeria	not available	Various industries	Profit Strong	positive relationship between CSR and profits

Source: Adapted from Oh and Park (2015); Madorran and Garcia (2014); Santoso and Feliana (2014); Chianget al. (2015); Nwidobie (2014) and Chetty et al. (2015).

## V. STAKEHOLDER THEORY

Stakeholder theory is proposed by Freeman in 1984. This theory deals with the firms long-term caring attitude towards its stakeholders on whom the organizations depends for its inputs and outputs. According to (Busch & Hoffmann, 2011) Stakeholder theory is an ideal management theory as it always focuses on the firms' interaction to enable a such business environment where firm can gain competitive advantage and grow. Several scholars and researchers opined that this theory is one kind of dominating theory in the empirical literature of CSR disclosure (Ghoul et al. 2011).

According to Orlitzky (2013) stakeholder theory is a broad concept, its scope is not limited, it's not only deals with the internal stakeholders such as managers and employees but also the external stakeholders such as investor of the firms. This theory also deals with the future generations who are influenced by the present, past and future activities of the firm and the broad society as well. Stakeholder theory is instrumental towards the development of the strategic case for the corporate social responsibilities which is the most populist characteristic of this theory (Becchetti et al. 2009). According to Kasim (2012) with the stakeholder theories it is clearly possible to identify the firms

goal, implement strategy to handle the stakeholders by changing the firm's attitude, structures, and practices and maintain the relationship between stakeholder and managements.

## VI. CONCLUSION

The original research question stated in this review was: What is the relationship between Corporate Social Responsibility and Financial Performance? This review showed that the majority of studies looking at the relationship between CSR and CFP found a positive relationship. Furthermore, in accordance with previous research, this review revealed that there is much inconsistency in the way research measures the relationship between CSR and CFP. There is no standard definition of CSR that is properly measurable and, although FP is a much more straightforward measure, this research thus confirms the results of previous studies in providing evidence that the CSR disclosure of Industrial Companies lacks essential information. The findings of this research suggest some of the key policy implications. it is important to make CSR objectives more explicit through reconsidering industrial companies.

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