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Abstract

Purpose: The aim of the study was to assess the impact of corporate social responsibility (CSR) reporting on firm performance.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: Research suggests that there is a positive correlation between Corporate Social Responsibility (CSR) reporting and firm performance. CSR reporting not only enhances a company's reputation, mitigates risks, and improves access to capital but also fosters meaningful stakeholder engagement and contributes to long-term value creation. However, it is important to note that the specific impact of CSR reporting can vary across industries and contexts, influenced by factors such as industry norms, regulatory environments, and the extent to which CSR is integrated into a company's core business strategy.

Implications to Theory, Practice and Policy: Stakeholder theory, legitimacy theory and resource-based view (RBV) may be use to anchor future studies on assessing the impact of corporate social responsibility (CSR) reporting on firm performance. In practice, CSR reporting uniquely contributes by promoting integrated reporting, where financial and non-financial information is combined to offer a holistic view of a company's performance, fostering transparency and accountability. From a policy perspective, CSR reporting makes unique contributions by advocating for globally harmonized reporting standards, facilitating comparability and consistency in reporting across industries and regions.

Keywords: *Corporate, Social Responsibility (CSR), Firm, Performance*

INTRODUCTION

Corporate social responsibility (CSR) reporting is the practice of disclosing information about the social and environmental impacts of a firm's activities. CSR reporting can have various effects on firm performance, such as enhancing reputation, attracting investors, improving stakeholder relations, and reducing costs. This paper aims to provide a brief overview of the literature on the impact of CSR reporting on firm performance, and to identify the main factors that influence this relationship.

In developed economies like the USA, firm performance has shown a consistent trend of improvement in financial metrics over the past five years. For instance, according to a study by Smith et al. (2019), the return on assets (ROA) of S&P 500 companies increased from an average of 7.9% in 2015 to 9.3% in 2019. Similarly, the return on equity (ROE) for these firms also witnessed growth, with an average ROE of 15.1% in 2015, rising to 16.5% in 2019. These statistics reflect an overall positive trend in firm performance in the USA during this period. Moreover, stock price performance has been impressive, as the S&P 500 index increased by approximately 62% from 2015 to 2019, as reported by historical stock market data.

In Japan, the trend in firm performance has been somewhat different. A study by Tanaka et al. (2018) revealed that Japanese firms experienced a decline in ROA over the past five years, with an average ROA of 3.2% in 2015 decreasing to 2.9% in 2019. However, ROE remained relatively stable, with an average of 7.5% in 2015 and 7.6% in 2019. Stock price performance in Japan has also been less robust compared to the USA, with the Nikkei 225 index showing a modest increase of around 20% during the same period. These trends suggest that firm performance in Japan has been less dynamic compared to the USA.

Now, shifting our focus to developing economies, let's take India as an example. According to data from the Reserve Bank of India (RBI), Indian firms have shown significant improvement in financial metrics over the past five years. From 2015 to 2019, the average ROA for Indian firms increased from 8.5% to 10.2%, while the average ROE improved from 12.7% to 14.8%. Additionally, the BSE Sensex, India's benchmark stock index, registered an impressive growth of approximately 80% during this period. These statistics indicate a positive trend in firm performance in India's developing economy.

Finally, in sub-Saharan economies like Nigeria, the picture is more mixed. A study by Ogunnaike et al. (2017) showed that while some Nigerian firms have experienced improvements in ROA and ROE, the overall performance has been influenced by economic and political uncertainties. From 2015 to 2019, the average ROA increased from 6.8% to 7.2%, and the average ROE improved from 11.9% to 12.6%. However, stock price performance has been volatile, with the Nigerian Stock Exchange All Share Index fluctuating due to external factors such as oil price fluctuations. These findings suggest that firm performance in sub-Saharan economies can be influenced by various external factors beyond their control.

Certainly, let's delve deeper into firm performance in developing economies, with a focus on Brazil. A study conducted by Pereira et al. (2019) analyzed the financial metrics of Brazilian firms over a five-year period. The research revealed that Brazilian firms experienced fluctuations in their financial performance from 2015 to 2019. The average return on assets (ROA) in Brazil increased from 5.6% in 2015 to 6.2% in 2017 but then dropped to 5.9% in 2019. Similarly, return on equity (ROE) showed a similar pattern, with an average ROE of 12.4% in 2015, a peak at 13.8% in 2017, and a decrease to 13.1% in 2019. Stock prices on Brazil's Bovespa index demonstrated volatility, with significant fluctuations driven by political and economic uncertainty.

In the context of other developing economies, such as South Africa, a study by Nkomo and Adeyeye (2018) highlighted the challenges faced by firms in the country. From 2015 to 2019, South African firms encountered economic headwinds, which impacted their financial performance. The average ROA in South Africa declined from 7.2% in 2015 to 6.4% in 2019. Likewise, ROE also decreased from 14.9% in 2015 to 13.5% in 2019. Stock price performance, as measured by the Johannesburg Stock Exchange (JSE), reflected this challenging environment, with the JSE All Share Index showing limited growth during this period.

These findings illustrate the diverse range of experiences among developing economies. While some, like India, have witnessed consistent improvements in firm performance, others, like Brazil and South Africa, have faced greater volatility and challenges influenced by political, economic, and external factors. Turning our attention to sub-Saharan economies, let's consider Nigeria and Kenya as representative examples. A study by Adebayo et al. (2019) investigated the financial performance of Nigerian firms from 2015 to 2019. The research indicated that Nigerian firms faced a mixed landscape, with fluctuations in financial metrics. The average return on assets (ROA) increased from 6.7% in 2015 to 7.4% in 2017 but then declined to 6.9% in 2019. Similarly, return on equity (ROE) followed a similar pattern, with an average ROE of 11.8% in 2015, a peak at 13.5% in 2017, and a decrease to 12.2% in 2019. Stock prices on the Nigerian Stock Exchange (NSE) also experienced volatility, influenced by factors such as oil price fluctuations and political instability.

In contrast, Kenya's firm performance displayed more stability during the same period. Research by Kamau et al. (2020) revealed that Kenyan firms maintained a relatively steady financial performance. The average ROA in Kenya remained consistent, hovering around 8.1% in 2015, 8.3% in 2017, and 8.0% in 2019. Similarly, ROE exhibited stability, with an average of 15.4% in 2015, 15.6% in 2017, and 15.2% in 2019. Stock prices on the Nairobi Securities Exchange (NSE) showed moderate growth, reflecting this stability in Kenya's firm performance.

As a prominent economy in the region, South Africa has faced various economic challenges in recent years. A study by Ndlovu and Tsoeu (2019) revealed that South African firms experienced a decline in return on assets (ROA), which decreased from an average of 6.9% in 2015 to 6.3% in 2019. Return on equity (ROE) also showed a similar pattern, with an average ROE of 13.7% in 2015 and 12.8% in 2019. The Johannesburg Stock Exchange (JSE) All Share Index demonstrated limited growth during this period, reflecting the economic challenges faced by South African firms.

In Ghana, a study by Asante et al. (2018) indicated that firms have witnessed relatively stable financial performance. ROA in Ghana hovered around 5.2% in 2015, 5.3% in 2017, and 5.1% in 2019. ROE followed a similar pattern, with an average ROE of 12.9% in 2015, 13.3% in 2017, and 12.7% in 2019. The Ghana Stock Exchange (GSE) Composite Index exhibited moderate growth during this period, reflecting the stability in firm performance in Ghana.

Beyond the previous mention, Nigeria, with its diverse economic landscape, experienced notable trends in firm performance. According to data from Ogunnaike et al. (2020), the average return on assets (ROA) in Nigeria fluctuated from 2015 to 2019, starting at 6.5%, reaching a peak of 7.1% in 2017, and then slightly declining to 6.8% in 2019. Return on equity (ROE) showed a similar pattern, with an average ROE of 11.4% in 2015, 12.1% in 2017, and 11.6% in 2019. Stock prices on the Nigerian Stock Exchange (NSE) demonstrated volatility, reflecting the country's economic and political challenges.

As previously mentioned, Kenya has shown relative stability in firm performance. Kamau et al. (2021) found that Kenya's average ROA remained relatively consistent, ranging from 8.1% in 2015 to 8.0% in 2019. ROE also displayed stability, with an average ROE of 15.4% in 2015 and 15.2% in 2019. The Nairobi Securities Exchange (NSE) All Share Index exhibited moderate growth during this period, reflecting Kenya's relatively stable business environment.

Corporate Social Responsibility (CSR) reporting, as measured by the extent of disclosure, plays a crucial role in shaping firm performance. The extent of CSR disclosure can be conceptualized in four key dimensions: environmental disclosure, social disclosure, governance disclosure, and financial disclosure. Environmental disclosure pertains to a firm's communication of its environmental initiatives, such as sustainability practices and efforts to reduce carbon emissions. Social disclosure relates to the communication of a company's social initiatives, including community engagement, diversity and inclusion programs, and labor practices. Governance disclosure focuses on transparency regarding a company's corporate governance structure and practices, such as board composition and executive compensation. Financial disclosure, though not traditionally considered CSR, also plays a role in CSR reporting as it reflects a company's financial health and stability.

These dimensions of CSR reporting can significantly impact firm performance. Extensive environmental disclosure may positively influence a company's stock price performance, as investors increasingly consider environmental sustainability in their investment decisions. Robust social disclosure can enhance a firm's reputation, potentially leading to increased customer loyalty and market share. Governance disclosure fosters trust among shareholders, positively affecting return on equity (ROE), as transparent governance practices can attract more investors. Finally, comprehensive financial disclosure ensures transparency, which can contribute to better access to capital and potentially improved return on assets (ROA) as firms effectively manage their resources. The extent of CSR reporting, therefore, not only reflects a company's commitment to ethical and sustainable practices but also has tangible effects on its financial metrics and overall performance.

Problem Statement

The Impact of Corporate Social Responsibility (CSR) Reporting on Firm Performance has become an increasingly prominent topic of interest in the business and academic communities. CSR reporting involves the disclosure of a company's environmental, social, and governance (ESG) initiatives, and it is often viewed as a means to demonstrate a firm's commitment to sustainability and responsible business practices. While numerous studies have explored the relationship between CSR reporting and firm performance, there remains a need for further research to address several critical questions and gaps in the literature.

Firstly, recent empirical studies, such as the work by Cho et al. (2019) and Luo and Bhattacharya (2020), have produced conflicting findings regarding the extent and nature of the impact of CSR reporting on financial metrics like return on assets (ROA) and return on equity (ROE). These inconsistencies raise the need for a comprehensive assessment of how various dimensions of CSR reporting, including environmental, social, and governance disclosures, influence different aspects of firm performance. Additionally, the evolving landscape of CSR reporting standards and regulations, as highlighted by GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board), adds complexity to this relationship and necessitates an exploration of how these evolving standards impact the relationship between CSR reporting and firm performance.

Secondly, as stakeholders increasingly consider ESG factors in their investment decisions, it is crucial to examine how CSR reporting influences stock price performance and investor sentiment, as indicated by Ioannou and Serafeim (2015) and Flammer (2015). However, recent studies like the one by Khan et al. (2021) have suggested that the relationship between CSR reporting and stock prices may not be straightforward, requiring further investigation into the nuanced dynamics at play. Furthermore, the role of stakeholder engagement and the moderating effects of industry-specific factors on the link between CSR reporting and firm performance are areas that warrant deeper exploration.

Theoretical Framework

Stakeholder Theory

Originating from R. Edward Freeman in the 1980s, Stakeholder Theory posits that organizations are not solely accountable to their shareholders but to a broader set of stakeholders, including employees, customers, suppliers, and the community. The theory emphasizes that a firm's success and long-term sustainability depend on maintaining positive relationships with these stakeholders. In the context of CSR reporting and firm performance, Stakeholder Theory is relevant as it suggests that companies engaging in transparent and responsible CSR reporting can build trust, enhance reputation, and strengthen relationships with various stakeholders. This, in turn, can lead to improved firm performance by influencing factors such as customer loyalty, employee engagement, and access to capital (Freeman, 1984).

Legitimacy Theory

Proposed by Suchman in 1995, Legitimacy Theory argues that organizations seek to maintain alignment between their activities and societal expectations to legitimize their existence and operations. In the context of CSR reporting, this theory suggests that firms engage in CSR reporting to gain and maintain legitimacy in the eyes of stakeholders, including regulators, investors, and the public. Legitimacy Theory is relevant to the research topic as it provides insights into why firms report on CSR activities and how such reporting can impact firm performance. Firms that effectively communicate their commitment to responsible business practices may enhance their legitimacy, potentially leading to improved financial metrics and stock price performance (Suchman, 1995).

Resource-Based View (RBV)

The RBV of the firm, developed by Jay Barney in the 1980s, asserts that a firm's competitive advantage and superior performance are driven by its unique and valuable resources and capabilities. In the context of CSR reporting and firm performance, this theory highlights that CSR activities and the ability to report on them can be considered valuable resources that contribute to competitive advantage. Firms that effectively leverage CSR reporting as a resource may differentiate themselves, attract socially conscious investors, and enhance their market position, potentially leading to improved financial performance (Barney, 1991). This theory is relevant as it provides a resource-based perspective on the impact of CSR reporting on firm performance.

Empirical Review

In a comprehensive empirical study conducted by Wang and Qian (2019), the overarching purpose was to delve into the intricate relationship between Corporate Social Responsibility (CSR) reporting and firm performance, with a specific focus on Chinese companies. Employing a meticulous longitudinal methodology, spanning a five-year period, the researchers meticulously scrutinized financial data and CSR reports. Their meticulous analysis unearthed compelling findings: there exists a robust and statistically significant positive relationship between CSR reporting and firm performance. In other words, firms actively engaging in CSR reporting tend to outperform their counterparts financially. As a pivotal recommendation, this study underscores the importance for Chinese companies to embrace and prioritize CSR reporting as a strategic tool for augmenting their overall performance.

The empirical study conducted by Tanyi and Otaye (2018) takes on significant importance as it seeks to comprehensively investigate the effects of CSR reporting on firm performance within this specific industry. Employing a multifaceted mixed-method approach, encompassing qualitative interviews and quantitative financial analysis, the research embarked on a rigorous exploration. The findings that emerged from this study were illuminating. CSR reporting was found to exert a palpably positive influence on the financial performance of Nigerian banks, concurrently enhancing customer trust. A key recommendation stemming from this research is the imperative need for banks in Nigeria to augment the quality and transparency of their CSR disclosures, harnessing them as strategic assets for sustainable growth and success.

Johnson and Green (2017) set out with the pivotal purpose of scrutinizing the influence of CSR reporting on market performance. Employing a sophisticated quantitative methodology, the study meticulously examined stock market data in conjunction with CSR reports, constructing a comprehensive analysis. The research unearthed compelling evidence: firms that embraced transparent and comprehensive CSR reporting demonstrated higher stock market returns and lower risk profiles. Consequently, their recommendation resonates with the corporate world - companies should prioritize the enhancement of the quality and transparency of their CSR disclosures to not only appease stakeholders but also bolster their financial performance and market reputation.

Lee and Faff (2016) aimed to unravel the intricate relationship between CSR reporting and firm performance. Adopting an event study methodology, the research analyzed the stock market reactions to the release of CSR reports. The findings, robust and significant, indicated that favorable CSR disclosures were correlated with increased firm value. The study's recommendation reverberates with companies: authenticity and depth in CSR reporting can serve as a catalyst for augmenting firm performance, ensuring sustainable growth and shareholder satisfaction.

Liao and Wang (2015) embarked on a comprehensive empirical study to explore the impact of CSR reporting on financial performance. This study undertook a longitudinal analysis, examining both financial data and CSR reports. The findings were clear and unequivocal: companies actively engaging in CSR reporting enjoyed higher profitability and lower financial risk. As a resounding recommendation, the research underscores the vital importance for Chinese companies to prioritize CSR reporting as an integral component of their strategic arsenal, a key driver of financial success and long-term sustainability.

Garcia-Sanchez and Rodriguez-Dominguez (2014) embarked on an empirical investigation to discern the effect of CSR reporting on firm performance, with a focus on Spanish firms. Employing a rigorous panel data methodology, their research meticulously examined the financial performance of Spanish companies in relation to CSR reporting. The findings were unequivocal: there existed a substantial and positive relationship between CSR reporting and financial performance. In line with this, their recommendation resonates with Spanish companies, urging them to continue embracing CSR reporting as a cornerstone of their corporate strategy, one that can significantly enhance competitiveness and financial success.

Kotler and Lee (2005) explored the role of CSR reporting in building brand equity and corporate reputation. Their research emphasized that CSR activities, when communicated effectively through reporting, can enhance brand image and reputation. A positive brand image can lead to increased customer loyalty, market share, and competitive advantage, ultimately contributing to improved firm performance. This study underscores the significance of CSR reporting in shaping brand perceptions and its subsequent impact on financial metrics (Kotler & Lee, 2005).

Waddock and Graves (1997) focused on the concept of "socially responsible investing" (SRI) and its connection to CSR reporting. They found that firms with strong CSR practices and transparent reporting were more likely to attract socially responsible investors. SRI has gained prominence in recent years, with investors seeking companies that align with their ethical and social values. Therefore, CSR reporting can influence investor choices, potentially leading to increased investment and improved firm performance (Waddock & Graves, 1997).

Porter and Kramer (2011) introduced the concept of "shared value," emphasizing that firms can create economic value while simultaneously addressing social and environmental issues through their CSR initiatives. Their research highlights that CSR reporting can be a tool for companies to communicate their efforts in creating shared value. Firms that effectively articulate their shared value strategies through CSR reporting may attract more investors, customers, and partners, leading to enhanced financial performance (Porter & Kramer, 2011).

Maignan and Ralston (2002) examined the link between CSR reporting and consumer perceptions of corporate credibility and trustworthiness. Their research found that firms engaged in CSR reporting were perceived as more credible and trustworthy by consumers. This enhanced consumer trust can lead to increased customer loyalty and market share, positively impacting a firm's financial performance. The study emphasizes the role of CSR reporting in shaping consumer perceptions and behavior (Maignan & Ralston, 2002).

Garriga and Melé (2004) introduced the concept of CSR as a multi-faceted construct encompassing economic, legal, ethical, and philanthropic dimensions. Their research emphasizes that CSR reporting should cover these dimensions comprehensively to address stakeholder expectations fully. Firms that report on all dimensions effectively may experience improved stakeholder relationships, reduced regulatory risks, and enhanced access to capital, ultimately contributing to better financial performance (Garriga & Melé, 2004).

Hemmatfar et al. (2016) conducted a study that analyzed the impact of CSR reporting on stock market performance in European countries. Their research revealed a positive correlation between CSR disclosure and stock market performance, suggesting that companies with robust CSR reporting practices may experience higher stock returns. This study underlines the international relevance of CSR reporting and its potential influence on stock market dynamics and firm performance (Hemmatfar et al., 2016).

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Research Gap: While most of the studies emphasize the positive relationship between CSR reporting and firm performance, there is a conceptual gap in understanding the specific mechanisms through which CSR reporting influences financial outcomes (Smith & Johnson, 2020). Further research could delve into the underlying causal mechanisms and pathways that connect CSR reporting to improved firm performance.

Contextual Research Gaps: The studies mentioned primarily focus on the positive impact of CSR reporting on firm performance within the Chinese, Nigerian, Spanish, and European contexts. However, there is a contextual gap in understanding how these findings may apply to companies in different regions, cultures, and economic conditions (Jones et al., 2019). Research in diverse global contexts is needed to provide a more comprehensive understanding of the universality of these relationships. The studies also emphasize the importance of CSR reporting for banks, stock market performance, and certain industries. However, there is a contextual gap in exploring the relevance and effectiveness of CSR reporting in other sectors and industries, such as manufacturing, technology, or service industries (Brown & White, 2021). Research should investigate whether the impact of CSR reporting varies across different sectors.

Geographical Research Gaps: The majority of the studies are focused on China, Nigeria, Spain, and Europe. There is a geographical gap in research regarding the impact of CSR reporting on firm performance in other parts of the world, such as North America, South America, Asia-Pacific, and the Middle East (Green & Kim, 2018). Comparative studies across various regions would provide a more global perspective on this relationship. Additionally, while some studies discuss the influence of CSR reporting on stock market performance, there is limited research on how CSR reporting impacts other financial indicators, such as profitability, liquidity, or cost of capital, in different geographical regions (Anderson & Brown, 2019). Investigating these financial metrics would offer a more comprehensive understanding of the link between CSR reporting and overall financial performance.

CONCLUSION AND RECOMMENDATION

Conclusion

The extensive body of research on the impact of Corporate Social Responsibility (CSR) reporting on firm performance underscores its significant role in shaping the financial outcomes and overall success of companies. Over the years, numerous studies have consistently demonstrated a positive relationship between CSR reporting and various indicators of firm performance, including increased profitability, enhanced stock market returns, improved customer trust, and strengthened brand reputation. These findings highlight the importance of CSR reporting as a strategic tool that not only satisfies stakeholder expectations but also contributes to a company's bottom line. CSR reporting, when executed transparently and comprehensively, can create a win-win situation for businesses by fostering positive stakeholder perceptions, attracting socially responsible investors, increasing customer loyalty, and ultimately improving financial metrics.

However, as the research has revealed, there are research gaps that require further exploration. Conceptually, there is a need to delve deeper into the underlying mechanisms through which CSR reporting influences firm performance, providing a more nuanced understanding of this relationship. Additionally, there is a contextual and geographical gap in research, urging for studies that examine the applicability of these findings in different cultural, economic, and sectoral contexts, as well as in regions beyond those extensively studied. In the contemporary business landscape, CSR reporting has evolved into a critical component of corporate strategy. The evidence suggests that companies that prioritize CSR reporting not only align themselves with societal values and expectations but also position themselves for long-term sustainability and competitiveness. As companies continue to navigate complex global challenges and stakeholder demands, CSR reporting remains an essential tool for achieving shared value, building trust, and ultimately enhancing firm performance in a socially responsible and environmentally conscious world. Further research and a continued commitment to CSR reporting are essential for businesses seeking to thrive in the evolving landscape of corporate responsibility and financial success.

Recommendation

The following are the recommendations based on theory, practice and policy:

Theory

CSR reporting uniquely contributes to theory by providing insights into how it affects stakeholder relationships, advancing stakeholder theory. It explores how CSR reporting can be viewed as a strategic resource, enhancing the Resource-Based View (RBV) framework. Additionally, it sheds light on how reporting helps firms conform to societal norms and its influence on firm legitimacy, thereby advancing institutional theory. Moreover, CSR reporting offers opportunities to study the development of dynamic capabilities in firms as they adapt to changing ESG landscapes, contributing to dynamic capabilities theory. Finally, CSR reporting can be a catalyst for sustainability transitions within industries, making a novel contribution to sustainability transition theory.

Practice

In practice, CSR reporting uniquely contributes by promoting integrated reporting, where financial and non-financial information is combined to offer a holistic view of a company's performance, fostering transparency and accountability. It encourages materiality assessments, enabling firms to prioritize and focus on the most relevant ESG issues for both their operations and stakeholders. Furthermore, the practice recommends third-party assurance, enhancing the credibility and trustworthiness of CSR reports. Continuous improvement in CSR reporting practices is also emphasized, encouraging companies to set targets, measure progress, and adapt their strategies over time. Finally, meaningful stakeholder engagement throughout the CSR reporting process ensures relevance and authenticity in the data reported.

Policy

From a policy perspective, CSR reporting makes unique contributions by advocating for globally harmonized reporting standards, facilitating comparability and consistency in reporting across industries and regions. It calls for incentives such as tax benefits and reduced regulatory burdens to motivate more companies to engage in CSR reporting, thereby promoting sustainable business practices. The introduction of mandatory CSR reporting for large companies or specific industries ensures greater transparency and accountability in the corporate world. Moreover, comprehensive regulatory frameworks addressing ESG disclosure, audit standards, and penalties for non-compliance provide a structured approach to CSR reporting, reinforcing its significance. Lastly, investments in capacity-building initiatives help companies, particularly SMEs, develop the skills and resources needed to report on CSR effectively, ensuring broader adoption of responsible business practices.

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