Linking Corporate Social Responsibility to Corporate Performance: Evidence From the Media Industry

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This study explores the interdependence of corporate social responsibility (CSR) and corporate performance using a sample of companies from the media industry in the Republic of Croatia. Our primary aim was to empirically test hypothesized positive relationship between CSR and corporate performance. We identified core CSR dimensions of companies operating in the media industry (relationship with owners, employees, stakeholders, environment, and society) and applied the new methodological approach in CSR classification through criteria of (under)development. Our results suggest that corporate performance measured by a composite indicator based on the Balanced Scorecard in companies with developed CSR is statistically significantly higher than for the companies with underdeveloped CSR.

Keywords: corporate social responsibility (CSR), corporate performance, Balanced Scorecard, media industry

INTRODUCITON

There is a growing interest in Corporate Social Responsibility (CSR) by management scholars and practitioners in recent years. However, the results of many CSR studies are often unclear and opposed leaving a great number of unanswered and partially answered questions to be discussed.

Today, no company is isolated from its environment since it develops and operates in conditions of dynamic and uncertain changes in both the external and internal environment. It is imperative to take into account the fact that the business world of today is faced with the constellation of market, social and ecological interests. These new and different relations suggest that the business world is no longer separated from the problems that affect its environment. This study explores the interdependence of CSR and corporate performance using a sample of companies from the media industry in the Republic of Croatia. Our primary aim was to empirically test hypothesized positive relationship between CSR and corporate performance.

CSR AND CORPORATE PERFORMANCE IN THE MEDIA INDUSTRY

It is stated that a company behaves socially responsible when it does not pollute the environment and does not burden consumers with false promises, and when it accurately informs owners of company's business results (Alfirević, 2014). CSR implies taking steps to improve someone social good, above the interests of the company and above the level prescribed by the law (McWilliams and Siegel, 2001). Companies with socially responsible strategies integrate social and environmental challenges into their business operations and into interactions with stakeholders demonstrating publicly their accomplished performance (Van Marrewijik, 2001).

Industries are rarely, as is the case with the media industry, so closely related to the concept of CSR. The position of companies operating in the media industry largely depends on the public perception of their product, which is formed depending on whether the public believes that the media company is socially responsible or whether the generally accepted principles are not only declarative. The media have a major influence on the creation of a public opinion related to socially responsible business issues, and Sambrook (2002) points out that socially responsible business is a way of thinking about an individual, social processes and the world in general. The basic principle underlying the media's responsibility is their social role in fulfilling the media's obligation to be guided by the highest professional standards of information. By accepting this role, the media must respect the legal framework and institutions, they must avoid encouraging crime, violence, civil disobedience, or being directed against minorities. Also, the media must reflect and respect diversity in society, allow different views to be expressed, ditto journalists and should be prominent in society (McQuail, 2005). Media company managers are faced with the tough task of constantly balancing between the goal of maximizing profits and meeting broader social goals.

One of the central issues within previous CSR research is the question focused on how CSR is linked to corporate performance. Brammer and Millington (2008) have explored how CSR practices are related to the company's financial performance focusing their research into philanthropic corporate donations, as these activities provide transparent insight into the corporate strategy in the context of social responsibility. The results of their study show significant differences in terms of the financial results of those companies that provide extremely high or extremely low philanthropic contributions. Waddock and Graves (1997) show that CSR results are positively associated with previous financial performance and future financial performance measured by three indicators (ROA, ROE, and ROS). This means that better financial results can lead to improved CSR, i.e. better policy on CSR can lead to better financial results.

Direct linkage between CSR and financial performance has been intensively investigated over recent decades, but recently it is considered that the direct link between these two variables can hardly be identified because of the numerous methodological problems. Wood (2010) summarizes the most common problems in sample selection: (1) excessive use of self-reported company data, (2) small samples, (3) measurement of attitudes used as behavioral substitutes, (4) use of inadequate statistical methods, and (5) ignoring modifying variables.

Margolis, Elfenbein, and Walsh (2009) illustrate that the link between CSR and financial performance strengthens when analyzing specific dimensions of philanthropic contributions and when CSR is measured broader – taking into account the perception of employees and company reports on social contributions. Research by Nelling and Webb (2009) shows that it is possible to establish a link between corporate CSR and financial performance when traditional statistical methods are used but when using fixed effect regression panel data, the link between two variables is much weaker. Furthermore, the results show that better stock market results lead to increased corporate investment in CSR policies focused on employee relations, but CSR activities do not always affect financial performance.

Inconsistency of past research is partly due to the different approaches to defining CSR and the measuring instruments used to quantify corporate socially responsible actions. Corporate performance should not be assessed solely by means of financial indicators but by their expansion to non-financial indicators as better performance is achieved by a balanced approach to meeting the needs of a larger number of stakeholders. To measure the performance of modern companies, it is of utmost importance not to focus on just one aspect of a business, but it is necessary to balance different parts of the business by merging multiple indicators into a whole that will then clearly reflect the business context.

The modern approach to measuring corporate performance requires a broader spectrum of organizational goals and is based on a stakeholder approach, according to which companies must be responsible not only to owners in terms of financial results, but also to all stakeholders in terms of broader economic, ecological and social impacts that the company produces (Maak et al, 2006).

METHODOLOGY

This paper looks at the interdependence of CSR and the performance of companies operating in the media industry (printing media) in Republic of Croatia. The research was conducted in the period from February to April 2017. To obtain reserach data, a questionnaire was sent to to board members and chairmens of the news publishing companies.

For the purposes of this research, the CSR index was composed which was measured through the following five key areas (dimensions):

1. The relationship of the company to its owners (information, value creation, incorporation of social responsibility strategy into daily activities);
2. Company-to-employee relationship (investing in human capital, investing in job security, developing remuneration and promotion procedures, non-discriminatory practices);
3. Company relationship with other primary stakeholders (product quality, compliance with contractual provisions, consumer rights protection, taking into account relationships with credit institutions, partnerships with suppliers);
4. Company's environmental relationship (environmental concerns, use of green technologies for reducing pollution, promotion of environmental actions, use of renewable energy sources);
5. Relationships with the community (sponsorships and donations, helping the community in the sphere of their activity, or the area of other useful social initiatives).

The corporate performance was measured through a combination of qualitative and quantitative indicators, which results in a multidimensional measurement of the performance outcomes presented by the Balanced Scorecard (Table 1).

TABLE 1
PERFOMANCE: VARIABLES

Variables - Perspectibe	Indicators
Financial perspective	1. income 2. profit 3. market share 4. reduction of operating costs
Customer perspective	1. customer satisfaction 2. price competitiveness 3. functionality of satisfying customer needs 4. quality and timeliness of delivery 5. orientation towards the ongoing search for new customers
Internal business perspective	1. intensity of development activities 2. new product characteristics 3. volume of post-sales services 4. advancement of the operational process 5. application of new technological procedures
Learning and growth perspective	1. encourage formal training 2. enabling various forms of training 3. investment in occupational safety 4. humanity of the workplace 5. equality of chance for progress

Source: author's research

With the aim of delivering a more realistic image of corporate performance, recognizing the effects of past activities, as well as newly-made activities whose impact is expected in the future, each of the model's perspectives are further operationalized by the variables that are considered to best represent the perspective they relate to.

RESULTS

The average ratings per individual dimensions of the CSR index are shown in Table 2 summarizing the results of the research conducted on the dimensions of CSR.

TABLE 2
CSR INDEKS

Dimensions of socially responsible business		N	Min	Max	Mean	SD
1.	Company relationship to owners	122	2,00	5,00	3,413	,9466
2.	Company relationship towards employees	124	2,50	5,00	4,019	,62981
3.	The company's relationship with other internal stakeholders	126	2,29	5,00	4,120	,64000
4.	Company's environmental relationship	124	2,00	5,00	3,812	,84503
5.	The company's relationship to the community	126	1,40	5,00	3,546	,86622
CSR Indeks		116	2,28	4,69	3,646	,53066
Valid N (listwise)		116				

Source: author's research

As can be observed, the average value of the CSR index was 3.65 (SD=0.53) with oscillations ranging between 2.28 and 4.69.

After quantifying the CSR in each of its dimensions, for the purpose of determining the levels of companies' CSR development, the sample classification was performed (shown in Table 3) in order to identify companies with underdeveloped CSR (the CSR index lower or equal to 3.00) and those with developed CSR (CSR index higher than 3.00).

TABLE 3
CRITERIA FOR THE DEVELOPMENT/UNDERDEVELOPMENT OF CSR

Developed/underdeveloped CSR	N	Min	Max	Mean	SD
1,01 – 2,00	-	-	-	-	-
2,01 – 3,00	12	2,28	2,97	2,6583	0,24711
Undeveloped CRS	12	2,28	2,97	2,6583	0,24711
3,01 – 4,00	70	3,03	3,97	3,5252	0,28439
4,01 – 5,00	34	4,04	4,69	4,2435	0,19591
Developed CSR	104	3,03	4,69	3,7599	0,21456
Valis N (listwise)	116				
TOTAL CSR	116	2,28	4,69	3,646	0,53066

Source: author's research

Out of a total of 116 respondents from our sample, 104 (89.7%) of them manage a company that has the attribute of developed socially responsible business (CSR index is higher than 3.00), and 12 (10.3%) of them manage a company that has the attribute of underdeveloped socially responsible business (CSR index is lower than or equal to 3.00).

Table 4 illustrates the results of descriptive statistics on the performance of companies with different levels of CSR. The analysis of corporate performance differences within companies with developed and those with underdeveloped CSR was conducted in order to determine whether the statistical significance exists.

TABLE 4
CORPORATE PERFORMANCE IN RELATION TO THE DEVELOPMENT/UNDERDEVELOPMENT OF CSR

	Development of CSR	N	Min	Max	Mean	SD
Performance	Underdeveloped CSR	12	1,96	3,30	2,4104	0,49276
	Developed CSR	96	2,10	4,56	3,5175	0,52020
	Valid N (listwise)	108				
Overall corporate performance		108	1,96	4,56	3,3961	,60542

Source: author's research

The results of descriptive statistics show that the performance of companies with developed CSR (Mean=3.52; SD=0.52) is higher than for the companies with underdeveloped CSR (Mean=2.41; SD=0.42). The observed differences were further examined by the Mann-Whitney U-test (Table 5 and Figure 1).

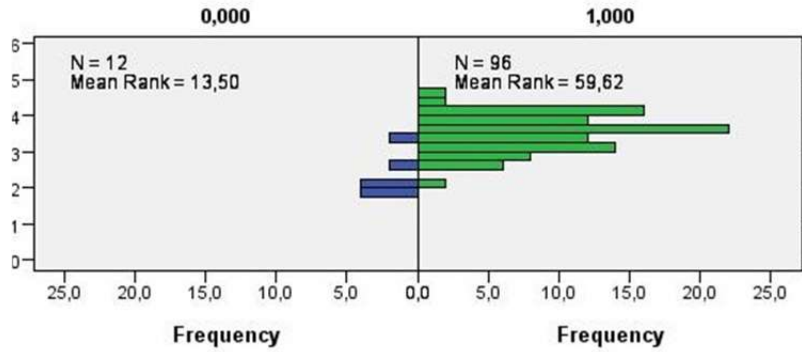
TABLE 5
DIFFERENCES IN COMPANY PERFORMANCE COMPARED TO DEVELOPED/UNDERDEVELOPED CSR

	Development of CSR	N	Mean Rank	Sum of Ranks
Performance	Underdeveloped CSR	12	13.50	162.00
	Developed CSR	96	59.62	5.724.00
	TOTAL	108		

	Performance
Mann-Whitney U	1.068.000
Wilcoxon W	5.724.000
Test Statistic	1.068.000
Standard Error	102.275
Standardized Test Statistic (Z)	4.811
Asymp. Sig. (2-sided test)	.000
a. Grouping Variable: Development/underdevelopment of CSR	

Source: author's research

FIGURE 1
INDEPENDENT-SAMPLES MANN-WHITNEY U TEST DEVELOPED/ UNDERDEVELOPED CSR



Total N	108
Mann-Whitney U	1.068,000
Wilcoxon W	5.724,000
Test Statistic	1.068,000
Standard Error	102,275
Standardized Test Statistic	4,811
Asymptotic Sig. (2-sided test)	,000

Source: Author's research

The test result indicates that there is a statistically significant difference in the level of business performance in companies with developed CSR compared to companies with underdeveloped CSR (z=4,811; sign=0,000), which means that companies with developed CSR achieve greater performance measured by the composite performance indicator obtained from the used BSC model.

Since differences in the level of corporate performance in companies with different levels of CSR have been statistically significant, further research focused on each performance perspective: Financial Perspective, Learning and growth perspective, Internal business perspective and Consumer perspective. Our results show that there are statistically significant differences in the performance of companies with different levels of CSR development in the Financial perspective (z=5,009; sign=0,000), Learning and growth perspective (z=3.964; sign =0.000), Internal business perspective (z=4.589; sign=0.000) as well as the Consumer perspective (z= 4,221; sign=0,000). The above proves that companies with developed CSR perform better than those with underdeveloped CSR in all perspectives observed.

CONCULDING REMARKS

The underlying assumption of this paper was that there is a link between the level of CSR development and the performance of companies operating in the media industry. In order to investigate whether there is a statistically significant difference in corporate performance regarding the level of CSR development, a CSR Index with 5 dimensions was composed.

The results of our research have confirmed that companies with developed CSR perform better than companies with underdeveloped CSR. Corporate performance measured with a composite indicator based on the BSC model in companies with developed CSR is statistically significantly higher than for the companies with underdeveloped CSR. Furthermore, in each of the four observed perspectives, there is a statistically significant difference in the developed CSR in relation to the underdeveloped CSR. As a result, we can conclude that companies with developed CSR achieve greater performance measured through a composite performance indicator based on the BSC model, respectively by improving their CSR practices media companies can increase their performance.

The conducted research provides a significant contribution to understanding the relationship between CSR and the company performance in the media industry, but also provides a framework for exploring this interdependence across other industries. One of the challenges for further research in this area is to compare the relationship between CSR and corporate performance of companies operating in the media industry in different countries in order to illustrate how the economic, political and cultural characteristics of individual countries are associated with different CSR levels and their relationship to the corporate performance.

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