Managerial Finance

The relationship between financial performance and social responsibility within financial organizations has progressively become more and more relevant, however the empirical results between these two distinctive factors might not be crystal-clear so as to define should they be mutually cooperated or not. The idea of sustainable progression and corporate social responsibility (CSR), though not having been clearly defined, has brought up a consequential query for most companies on how should they maintain business sustainability while still be able to adapt to an ever-changing economic, political and global factors. As such, various organizations have been more conservative with their interaction with not only those are directly related to their business, such as direct customers and suppliers, but social members have also played an important role as well.

One of the most up-to-date terminologies for CSR could be concisely defined in the work of Lassala et al. (2017), which is the method of contributing to a broader concept of sustainability involving all elements within a society, specifically including the environment and the people. There have been several trustworthy studies indicating that there is a significantly sturdy correlation between good CSR management and respectable business results for organizations (De Bakker et al., 2005; Orlitzky et al., 2003). To be specific, various core business factors such as revenues, innovation, end-product quality, as well as organizational objectives could be positively reinforced by having a caring attitude to the environment and society. On top of that, it can also greatly contribute to the company’s overall reputation, which is undoubtedly rather beneficial for a firm in the long run. For instance, if an individual finds that a company has a more effective approach to fulfill environmental obligations or social issues than others, he may become more inclined towards that company, subsequently, when he becomes an official customer, he would have higher confidence to use the products or services of such company.

For most finance companies, profitability has been one of the top priorities contributing to a company’s prosperity and sustainability as a whole, thus, when the first CSR models truly began to take hold at around the 1970s, numerous criticisms have been made, mainly due to the reason that financial experts believed that CSR was marked as a non-profit activity, and as a result, deemed to be inadequate for the wellbeing of a finance firm. Not to mention, the concept of CSR were mostly neglected by mainstream thinking in the past, so that was something have grown within the minds of business makers.

That being said, Friedman (1970) argued that the most important responsibility of a company is to only be focused on the stakeholders’ interest when they invest in that company for dividend payout profit. Many supporters have been on the same boat with him, stating the ultimate reason behind such idea is that an organization should not be fully responsible for any other aspect besides shareholders’ profitability, especially not for the sake of the whole society because that would be rather out of contexts for business operations. Not until when the 2008 financial crisis broke out in the U.S, of which the subprime mortgage bubble had subsequently triggered a chain collapse of various “too big to fail” financial institutions, the neo-liberal belief as asserted by Milton Friedman had finally been raised to public argument because the profit sustainability scheme was not thoroughly robust as it should be at that time. Fontaine (2013) has theoretically made several debatable points of view on how CSR manifests its way into managerial focus of a company through three main aspects: CSR as an Obligation, Social reaction and Risk management.

Firstly, it is argued that because a company exists by public allowance through business support, subsequently such company is indebted to repay society by making profit only within the constraints of applicable laws. To be specific, most businesses hold accountable to the stakeholders, therefore prioritizing their interests by generating sustainable profits would subsequently enhance their financial benefit, long as the company’s managers are legally in pursuit of profit in accordance with the laws.

Secondly, it is worth noted that companies should be more anticipatory and preventative in its approach to cope with social issues happening every now and then, rather than being restorative and passive towards them. According to this view, companies should coordinately work together with domestic communities to make it better for them, specifically by giving away monetary donations to domestic firms or penurious communities in developing nations.

Lastly, risk management is an importantly integral part of corporate strategies, as if incidents such as corruption or environmental scandal could potentially sabotage the reputation of that company, thus CSR shareholders strongly believe that building a genuine business culture of “making it right” within a company could offset such risks and unsolicited attention from the government or media.

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