HOW DOES CSR AFFECT FINANCIAL PERFORMANCE: THE ROLE OF MEDIATING VARIABLES

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Corporate social responsibility (CSR) has been long recognized as one of the key business concepts. At the same time CSR forms and strategies, the involvement in CSR, as well as CSR-related material issues can be vastly different across companies. When deciding on the scope of a company’s CSR initiatives and the forms of integrating stakeholders’ interests in a company’s operation, it is important to know how CSR activities affect financial performances, and whether CSR is associated with expenses only or whether it can lead to the improvements in the company’s bottom line in a short- or long-term perspective. A positive relationship between CSR and financial performance would be the most convincing argument in favor of the former and would perfectly reconcile the economic interests of business with the interests of society, making any trade-offs unnecessary. After all, shareholders and investors, including potential ones, belong to the most important groups of the stakeholders, and their financial aspirations are among a company’s top priorities.

However, despite the extensive empirical support for a positive correlation between CSR and financial performances, the overall empirical evidence regarding this relationship remains inconclusive. First, not all empirical studies confirm a positive relationship unambiguously. Some studies show that financial performances may depend on the level of CSR efforts in a U-shaped or inverted U(V)-shaped fashion. Second, the reverse causation may also take place, when better financial results enable a company to invest more in CSR initiatives. Also, there can be a bidirectional causality leading to self-reinforcing (virtuous cycle) effects. We discussed the reasons behind the discrepancies in empirical results on the relationship between CSR and financial performance reported in the literature in more detail elsewhere [1]. Third, there is hardly a direct relationship between CSR and financial performances. That is why it is more important to understand the mechanisms of how CSR can affect financial results, rather than to establish a specific quantitative relationship between them.

In this work, based on the review of empirical results reported in the literature, we identify possible mediating variables (intermediate variables) that are directly affected by CSR and then, in turn, affect, financial performances, thus mediating the relationship between CSR and financial results. In particular, we discuss such mediating variables as reputation, customer loyalty, and human capital. Understanding the mediating mechanisms can help companies in planning CSR activities and allocating CSR budgets in a way that would maximize a positive impact on the company’s financial performances.

References:

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