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Value-Enhancing Capabilities of CSR: A Brief Review of Contemporary Literature

Mahfuja Malik

Sacred Heart University, malikm@sacredheart.edu

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Value-Enhancing Capabilities of CSR: A Brief Review of Contemporary Literature

Abstract

This study reviews and synthesizes contemporary business literature that focuses on the role of Corporate Social Responsibility (CSR) to enhance firm value. The main objective of this review is to proffer a precise understanding of what has already been investigated and the findings of those investigations regarding the value-enhancing capabilities of CSR. In addition, this review identifies gaps in existing literature, evaluates inconsistent findings, discusses possible data sources for empirical researchers, and provides direction for exploring other promising avenues in future studies. The thrust of the CSR literature largely acknowledges the value-enhancing capabilities of firms' social and environmental activities. However, the predominance of inconsistent theoretical grounds in major CSR-benefits-related areas suggests that there is ample room for future research to contribute to extant literature. Anecdotal evidence, the prevalence of theoretical arguments, and the availability of large cross-sectional firm-level data suggest that future research will enrich the literature by investigating the real insights behind several unanswered questions, by establishing implicit understandings regarding recognized findings, and by developing new theories in this emerging field.

Keywords: Corporate social responsibility, CSR reporting, value-enhancing capabilities, firm performance, cost of capital, financial reporting, corporate governance, auditability

Value-Enhancing Capabilities of CSR: A Brief Review of Contemporary Literature

1.0 Introduction

During the last two decades, the issue of corporate social responsibility (CSR) has drawn attention from the business press, and a substantial body of diversified academic literature exploring this emerging issue has been published. Dramatic increases in CSR investments, the issuance of CSR reports, and in-depth research analyses have clearly established CSR as an important topic in business literature. Although the cost-benefit analysis of CSR has long been contested, extant literature largely acknowledges the value-driven role of CSR. This study attempts to review and synthesize CSR research that focuses on the value-enhancing role of CSR under various circumstances.

Although CSR-related research is still emerging in the scholarly world, already the domain of existing research is vast and multidimensional. Extant literature presents substantial evidence that CSR activities can play a significant role in enhancing a firm's value. The thrust of this research is the theory that firms can realize myriad benefits as a result of superior social and environmental performance. These benefits can be found in various facets of firm performance, such as enhanced operating efficiency (Porter & Kramer, 2002; Saiia et al., 2003; Brammer & Millington, 2005), product market gains (Menon & Kahn, 2003; Bloom et al., 2006), improved employee productivity (Tuzzolino & Armandi, 1981; Trevino & Nelson, 2004; Valentine & Fleischman, 2008), capital market benefits (Godfrey, 2005, Dhaliwal et al., 2012), risk management (Richardson & Welker, 2001; Dhaliwal et al., 2011; Cheng et al., 2012; Husted, 2005), and earnings quality (Chih et al., 2008; Hong & Andersen, 2011; Kim et al., 2012). A summary of these various CSR-related benefits is provided in this literature review.

This paper argues that firms align their social goals with corporate goals where CSR is used as a strategic tool to maximize value, and that firms with strong CSR performance have greater potential to increase shareholder value as well as the value of other stakeholders. This claim is based on theories and findings in extant literature that focuses on CSR research in the areas of accounting, finance and management.

Although CSR research has addressed diversified issues and has resulted in an immense body of knowledge regarding the value-creating role of CSR, the concept and the scope of CSR are difficult to define. This study offers a discussion on the CSR definition in the light of prior literature. In addition, the analysis of this review has revealed a lack of consistent theoretical grounds in major CSR benefit- related areas. Overall, there is ample room for future research to contribute to the extant literature by investigating the real insights behind unanswered questions, by establishing implicit understandings regarding recognized findings, and by developing new theories in this emerging field.

The primary insight gleaned from existing CSR benefits-related research is as follows: Even though the cost-benefit analysis of CSR has been long contested, the benefits outweigh the potential costs. Superior CSR quality positively affects firm value, both in the short term and in the long run. CSR may also be employed as an important strategic tool to maximize shareholder value by protecting other stakeholders' interests. Depending upon the structure and goals of their CSR programs, firms realize different CSR benefits that ultimately improve their overall value. These benefits include capital market advantages, improved operating efficiency, product market benefits, regulatory favors, and improved employee productivity. By aligning social actions with corporate objectives in order to facilitate superior quality CSR programs, firms can maximize their value, which is generally considered the ultimate goal of all firms.

In order to assess the value-driven role of CSR, this review focuses on CSR-related research published in top-ranked finance, accounting and management journals, as well as other select journals that focus exclusively on CSR research. The reason for selecting these journals is to glean the most beneficial information regarding CSR found in the extant literature. As part of the article search for this review, titles and/or abstracts of articles found in these journals were carefully examined for relevant CSR research. This study focuses primarily on the empirical research conducted by CSR researchers. Appendix A lists the names of the selected journals used in this study, and Appendix B lists the keywords used for article searches in those specific journals. Additionally, some articles that are referred by those selected papers from top-ranked journals are also reviewed to further evaluate the complete sets of findings in any specific area.

This study has three objectives. The first objective is to offer a summary of the existing literature in order to build a theory of the value-driven role of CSR. This summary will be helpful for future empirical research to establish a precise understanding of what has already been investigated, and the findings of those investigations in turn serve to establish the value-driven basis of firms' social performance. Second, this review evaluates the arguments behind the findings of existing literature. This evaluation is helpful to develop new theories for investigating several unanswered questions in this field. Third, this study identifies gaps and inconsistencies in the findings of existing literature and also explores promising avenues for future studies.

The remainder of the paper summarizes CSR literature in the following manner. Section 2 discusses the method as well as the nature of CSR searches in different business literature. Section 3 offers a definition of CSR in the light of existing literature. Section 4 summarizes the various domains and the major findings of the literature, which further serves to establish the

value-driven role of CSR. Section 5 exclusively discusses the disclosure of CSR and its effects. Section 6 provides concluding remarks, a brief evaluation of existing theories, and potential directions for future research.

2.0 CSR Research in Business Literature

Although CSR is a relatively new term in business literature, the evolution of the concept itself has taken place over the last several decades. The issue of CSR was first discussed in the 1930s, in a Harvard Law Review article that argued in support of the responsibilities of managers to society (Dodd, 1932). This review finds that the majority of CSR-related research has been published in management literature. Management literature tends to highlight the meaning, obligations and expectations of CSR, as well as the impact of different CSR issues on firm performance. Accounting literature began to emphasize CSR issues around the year 2000. Accounting research has focused primarily on firms' CSR as well as CSR disclosure, and the association of those two factors with various accounting and financial variables. Only a few CSR studies have been published in Finance literature. Table 1 gives a summary of selected CSR research, research methods, and data sources published in some of the top-ranked accounting, management and finance journals.

[Insert Table 1]

Studies pertaining to CSR found in management literature are primarily descriptive or qualitative in nature. Several management journal studies have no specific hypothesis or research question. Rather, these papers develop various theories based upon intensive normative descriptions. On the other hand, CSR research that is featured in accounting literature investigates specific research questions and establishes causal links by using empirical data.

Some scholars have developed mathematical models to explain a theoretical framework for CSR. A large number of researchers have focused specifically on environmental issues. Other dimensions of CSR addressed by extant research include community, education, employees, human rights, ethics, philanthropy, etc.

The entire stream of CSR literature can be categorized in the following ways: experimental, archival, survey, case study, modeling, and other research. This review focuses on the archival research published in select top-ranked journals. In this review, the domains of CSR literature are categorized based upon major topical areas, which are firm performance, capital market returns, cost of capital, financial reporting, corporate governance, employee benefits, executive compensation, product market advantages, determinants and informational contents of CSR disclosures, and auditability of CSR disclosures. While synthesizing contemporary CSR-related research, this review finds that researchers are still developing a substantial body of knowledge regarding the role of CSR and CSR disclosure in terms of firm behavior. Figure 1 summarizes the domains of CSR and CSR disclosure-related contemporary research.

[Insert Figure 1]

3.0 Definition and Measurement of CSR

Although there has been a remarkable discussion in academic literature on the socially responsible behavior of firms, researchers find it quite challenging to define the specific construct of CSR (Ramanathan, 1976; Wiseman, 1982; Ilinitich et al., 1998; McWilliams et al., 2006; Barnett, 2007). Some researchers consider CSR to be a function of a firm's behavior toward its different stakeholders, such as customers, suppliers, regulators, employees, investors and communities (Cooper, 2004; Campbell, 2007). The other group of researchers defines CSR

as a company's discretionary multidimensional activities, which include social, political, environmental, economic and ethical actions (Carroll, 1999; Devinney, 2009). Carroll (1999) discusses the ambiguity and evolution of the definition of CSR:

“The term [social responsibility] is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of “responsible for,” in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for “legitimacy,” in the context of “belonging” or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behavior on businessmen than on citizens at large.”

Given the challenges inherent in defining CSR, empirical research has sought to identify and quantify relevant categories, which may be useful in building a link between CSR and its outcomes. The measurements of various dimensions of CSR are primarily driven by the available data used by researchers. Many researchers have conducted surveys to measure CSR (Buzby & Falk, 1978; Hung, 2011). However, in several cases surveys have posed difficulties due to low return rates and inconsistency among survey participants. Another way to measure CSR is through a content analysis of a firm's 10-K or other disclosure documents (Abbott & Monsen, 1979; Webb et al., 2009), but depending upon the comprehensiveness of CSR information in such disclosures, content analysis is often inconsistent across firms. Researchers have also attempted to use experiments or case studies to measure CSR (O'Dwyer, 2011). These methods, however, often suffer from a lack of generalizability and are influenced by participant biases. To

overcome these problems, empirical researchers expect CSR to be measured uniformly and consistently across a wide range of companies.

Several databases provide an excellent opportunity for consistent CSR measurements, which would be a great source for archival researchers. The Kinder, Lynderberg, Domini Research and Analytics Inc. (KLD) database is one strong example. Based upon an extensive analysis of surveys, financial statements, business press, academic journals and government reports, KLD provides CSR information for more than 3,000 firms, which accounts for 98 percent of the total market value of all public firms in the U.S. (Barnea & Rubin, 2010).

Archival researchers can also collect large-scale, cross-sectional data for global firms from other databases.¹ These include the Asset 4 Thomson Reuters database (with more than nine years of CSR information for 3,000 global firms), the Bloomberg database (with more than five years of data for 4,000 global firms), the CRD Analytics database (with more than five years of sustainability investment data for over 1,000 global firms), the Dow-Jones Sustainability Index database (which includes sustainable asset management data dating back to 1999), the FTSE4 Global Index Series database (social responsibility index data), and the Carbon Disclosure Project Leadership Index database (which is the largest database of corporate climate performance scores).

To analyze the content of CSR reports, researchers can collect firms' stand-alone CSR reports from the web sites CorporateRegister.com and CSRwire.com. Over 40,000 CSR reports for firms across 125 countries are publicly available on these sites.

¹For additional details regarding these databases, please see: <http://www.hbs.edu/faculty/conferences/2013-corporate-accountability-reporting/Pages/databases.aspx>

4.0 Value-Enhancing Capabilities of CSR

There is little argument that corporations have some responsibility to society. However, there is considerable debate as to whether firms' socially responsible behavior is consistent with the wealth-maximizing interests of stockholders. One group of scholars has argued that CSR generates additional costs which could place firms at an economic disadvantage (Aupperle et al., 1985). Another group of researchers has demonstrated that these costs are relatively small compared to the potential benefits (Alexander & Buchholz, 1978; McWilliams & Siegel, 2000).

CSR benefits may take different forms, such as product market advantages, enhanced employee productivity, improved stock market returns, increased operating efficiency, corporate branding, and improved relations with regulators, society, and other stakeholders. Figure 2 reveals the most common CSR areas in which firms usually practice and the potential benefits that firms usually experience when employing specific CSR initiatives. Firms can develop a business model with basic value propositions designed for different stakeholders, such as employees, customers, suppliers, regulators, the community, and investors. Protecting different stakeholder interests results in different benefits, such as product market benefits (loyal customers, product diversification, extended market share, the creation of brand equity), capital market benefits (increased market returns, lowered cost of capital, decreased information asymmetry and risk), employee benefits (increased employee morale, job satisfaction and employee productivity), regulatory benefits (reduced litigation costs, positive media coverage and favorable treatment from regulators), operational benefits (better managerial skills, enhanced operating efficiency, enhanced profitability, improved corporate branding and reputation).

[Inset Figure 2]

4.1 CSR and Firm Performance

The most controversial topic in CSR literature is the association between CSR and firm performance. Researchers have sought to identify the various CSR activities of firms and have investigated the potential effects of these activities on firm profitability as well as firm value (Fogler & Nutt, 1975; Alexander & Buchholz, 1978; Cochran & Wood, 1984; McGuire et al., 1988; Pava & Krausz, 1996; Griffin & Mahon, 1997; Russo & Fouts, 1997; Elias, 2004; Mishra & Suar, 2010; Linthicum et al., 2010, etc.). Abbott & Monsen's (1979) research represents one of the early studies that developed a corporate social involvement disclosure scale based upon content analysis of annual reports and an investigation of the effects of CSR disclosures on firm profitability.

Though some scholars have argued that there is a negative association or no clear association at all between CSR and a firm's financial performance (Friedman, 1970; Griffin & Mahon, 1997; Waddock & Graves, 1997; Harrison & Freeman, 1999; McWilliams & Siegel, 2000), the majority of prior research demonstrates that CSR and firm performance are positively associated (Porter & Kramer, 2002; Saiia et al., 2003; Brammer & Millington, 2005; Godfrey, 2005; Orlitzky et al., 2003; Roman et al., 1999, etc.). Researchers have clearly documented that socially responsible firms outperform less socially responsible firms in terms of various accounting measures including return on investment (ROI), return on assets (ROA), and return on sales (ROS) (Cochran & Wood, 1984; Nehrt, 1996; Porter & van der Linde, 1995). In a recent commentary, Moser and Martin (2012) discussed a comprehensive meta-analysis of 251 studies that examined the association between CSR and firm performance. In that meta-analysis, the authors Margolis et al. (2009) concluded that the overall association between CSR and firm performance is positive.

Researchers have also investigated the reasons for which inconsistent associations between CSR and firm performance are observed. Barnett (2007) offered an explanation as to how ‘stakeholder influence capacity’ causes variations in the effects of CSR on firm performance. McWilliams & Seigel (2000) and Lin et al. (2008) have argued that misspecification of econometric models is the main reason behind the inconsistent findings. Some researchers have identified ‘endogeneity’ as an important issue. In order to address the endogeneity problem, Al-Tuwaijri et al. (2004) used a two-stage model and documented a positive association between CSR (environmental) performance and corporate economic performance. However, using a similar instrumental variable, Aupperle et al. (1985) failed to demonstrate any association between CSR and profitability. Although researchers have attempted to clarify the definition of CSR since the 1970s (Ramanathan, 1976; Wiseman, 1982; Ilinitich et al., 1998), Tanejia et al. (2011) found that ambiguity in the definition as well as the tools for measuring CSR are the main reasons for such inconsistent findings. Preston (1981) has suggested that researchers must develop better techniques related to data collection which measures CSR performance.

4.2 CSR and Capital Market Benefits

There is little argument that corporations have a responsibility to society. However, as previously stated, there is considerable debate as to whether firms’ socially responsible behavior is consistent with the wealth-maximizing interests of investors. Prior research has extensively investigated the CSR activities and CSR disclosure behavior of firms and their effect on investor behavior and firm value. Specifically, researchers have investigated whether superior CSR quality could result in various capital market benefits for firms, such as increased market return, decreased cost of capital, reduced information asymmetry, and improved risk management.

These capital market benefits help to improve the value of the firm, both in the short term as well as the long run.

The extant literature claims that strong positive associations exist between CSR and stock market performance, measured in terms of stock returns, market capitalization, and market to book (Anderson & Frankle, 1980; Freedman & Stagliano, 1991; Klassen & McLaughlin, 1996, Caroline, 2013). The benefits of CSR, such as increased employee productivity, enhanced brand value and corporate reputation and increased regulatory support, carry over into future periods. So, as previously mentioned, superior quality CSR performance positively affects the value of the firm, not only in the short term, but also in the long run (McGuire et al., 1988; Waddock & Graves, 1997; Luo & Bhattacharya, 2009; Eccles et al., 2013). However, Renneboog et al. (2008) found that risk-adjusted returns of socially responsible investment funds are not different from conventional investment funds.

Some experimental studies have examined the impact of CSR and CSR disclosures on investment decisions, and the findings are mixed (Belkaoui, 1980; Chan & Milne, 1999; Wang et al., 2011). Smith et al. (2010) demonstrated that investors' reactions to CSR disclosures vary across countries. Bird et al. (2007) uncovered evidence revealing that managers who take a wider stakeholder perspective often jeopardize the interests of stockholders. Alexander & Buchholz (1978) and Dijken (2007) have argued that only value-driven CSR can outperform the stock market. Using data from the U.K., Clacher & Hagendorff (2012) did not find a consistently positive market reaction when a firm is included in a social index (FTSE4Good Index).

Although there are inconsistent findings, it is widely argued in the literature that “high-CSR” firms (firms aggressively engaged in socially responsible initiatives) are more likely to

realize several other capital market benefits, which in turn lead to higher values for these firms. These capital market benefits include lowered cost of capital, lowered cost of debt, and better acceptance from creditors. The association between CSR and the cost of equity capital has been examined in several studies, most of which document a strong negative association (Richardson & Welker, 2001; Dhaliwal et al., 2011). However, Humphrey et al. (2012) did not find any significant association. By using China market data, Ye & Zhang (2011) documented that CSR performance also reduces the cost of debt. However, by using the Euro bond market, Menz (2010) demonstrated that risk premium is higher for CSR firms, although the relationship appears to be marginal. Using U.S. data, Cheng et al. (2012) found that firms with superior CSR performance have better access to finance, and the relationship is driven primarily by the environmental dimension of CSR.

Researchers have also reported that CSR activities reduce not only social risks but also operational, litigation, product, and technology-related risks (Starks, 2009). By using the real-option theory, Husted (2005) has suggested that CSR performance is negatively related to a firm's ex ante downside business risk. Thus, CSR activities improve risk management, which ultimately has a positive effect on the value of the firm.

4.3 CSR and Product Market Benefits

Researchers have investigated the effects of CSR not only on the financial market, but also on the product market. Those studies that have focused on the effects of CSR on product market/consumer behavior documented mixed findings (Murray & Vogel, 1997; Brown & Dacin, 1997; Ogden & Watson, 1999; Manaktola & Jauhari, 2007; Sing et al., 2008). However, some research has demonstrated that CSR reasonably enables a firm to expand its product

market, differentiate a product from its competitors, and build a brand reputation (Menon & Kahn, 2003; Bloom et al., 2006). Lindorff et al. (2012) have suggested that firms in controversial sectors are able to contribute to society in the same manner as firms conducting business in mainstream sectors. Controversial sectors include gambling, alcohol, tobacco, abortion, prostitution, etc. These are also known as ‘sin-firms’ in the literature. Thus, not only mainstream business sectors, but also controversial business sectors, can realize benefits from high-quality CSR performance.

4.4 CSR, Executive Compensation and Employment Market Benefits

In addition to capital market and product market benefits, the literature has also revealed that strong CSR performance can result in employee benefits (Tuzzolino & Armandi, 1981; Trevino & Nelson, 2004; Valentine & Fleischman, 2008). Researchers have documented that CSR activities improve employee morale (Solomon & Hansen, 1985). Different CSR provisions, such as meeting labor union demands, providing better health care and retirement benefits, and paying wages above the market level, help to increase employee productivity. These in turn assist firms in building a reputation as a good employer, which attracts better talent and motivates personnel (Roberts & Dowling, 2002; Valentine & Fleischman, 2008; Edmans, 2011). Brand equity and improved customer satisfaction driven by CSR also provide competitive advantages to firms, which result in increased sales, increased profitability and increased value for firms (Brown & Dacin, 1997; Lev et al., 2010).

The issues of CSR performance and executive compensation have been addressed by several scholars (e.g., Belkaoui, 1992; Mahoney & Throne, 2005). However, the findings are inconsistent. For instance, McGuire et al. (2003) found no association between CSR performance

and CEO incentives. Berrone & Gomez-Mejia (2009) found a positive association between CEO pay and a firm's environmental performance. Cai et al. (2011) documented a negative association between CSR and CEO compensation. Focusing on Canadian executives' long-term compensation, Mahoney & Thorne (2005) documented a positive relationship between CSR performance and compensation. In another study, Mahoney & Thorne (2006) found that executive salaries increase with CSR weaknesses, and bonus and stock options increase with CSR strengths.

4.5 CSR and M&A-Market Benefits

Although merger and acquisition (M&A) literature is vast and multidimensional, and a volume of significant CSR literature is emerging, only a few studies have attempted to bridge the research literature that addresses these important business trends. In a recent paper, Deng et al. (2013) investigated whether CSR creates value for an acquiring firm's shareholders in the post-merger period. They documented that high-CSR acquirers realize higher announcement returns and higher long-term stock returns during the post-merger period. Hawn (2013) investigated the role of CSR in the international expansion of multinational firms through M&As. This study demonstrated that an acquirer's positive CSR leads to faster deal completion, thereby overcoming home country disadvantages.

By using the environmental and social ratings of the Intangible Value Assessment (IVA) score, Aktas et al. (2011) reported that target firms' social and environmental performance relates positively to an acquirer's gains. In another empirical study, Berchicci et al. (2010) examined whether firms' environmental performance, a major dimension of CSR, influences their strategic decisions in M&As. By using the U.S. government's Toxic Release Inventory

data, these researchers demonstrated that high-CSR acquirers are more likely to acquire targets with inferior CSR quality. Waddock & Grave (2006) argued that acquiring firms have fewer CSR strengths and more concerns than their targets and therefore seek to improve their stakeholder-related practices through M&As.

4.6 Other CSR Benefits

4.6.1 CSR and Financial Reporting Quality

Researchers have explored the relationship between earnings quality and firms' CSR behavior. Hong & Andersen (2011) demonstrated that firms with greater social responsibility have better quality accruals and less real activity-based earnings management. Chih et al. (2008) documented that a strong commitment to CSR activities reduces firms' earnings smoothing and loss avoidance behavior. Kim et al. (2012) found that socially responsible firms are less likely not only to manage earnings through accruals and real activities, but are also less likely to be the subjects of SEC investigations. However, researchers have also argued that firms may engage in CSR activities to mask corporate misconduct (Hemingway & MacLagan, 2004). Several studies have demonstrated that CSR practices are sometimes used to boost managers' self-interests (Galaskiewicz, 1997; McWilliams et al., 2006; Barnea & Rubin, 2010).

Scholars have also investigated the relationship between CSR and different financial statement items. For instance, Padgett & Galan (2010) demonstrated that R&D intensity positively affects CSR, and this relationship was shown to be more prevalent in manufacturing industries. The issue of a firm's tax behavior and CSR is discussed in several studies (Crumbley et al., 1977; Freedman, 2003; Desai & Dharmapala, 2006). Lanis & Richardson (2012) found a negative relationship between CSR and tax aggressiveness. Huseynov & Klamm (2012)

documented that the impact of tax fees on the effective tax rate depends upon the level of CSR performance of firms.

4.6.2 CSR and Corporate Governance

The association between corporate governance and CSR is another issue that is broadly discussed in the extant literature. Jo & Harjoto (2011) used a broad range of governance proxies (CEO leadership, board independence, institutional ownership, analysts' following, anti-takeover provisions) to document a positive association between corporate governance and firms' CSR engagement. Brown et al. (2006) studied corporate philanthropic activities by using firm-level data on dollar giving and giving priorities. They found that firms with larger boards are associated with significantly more cash giving. In another study, Hung (2011) observed that the more concern the boards demonstrate for stakeholders, the more likely the firms will perceive the need to effectively implement CSR initiatives. Jo and Harjoto (2012) demonstrated that the lag of CSR does not affect corporate governance variables, but a lag in corporate governance variables positively affects firms' CSR engagement. Graves & Waddock (1994) hypothesized that there is a reverse causality between CSR and governance, and they concluded that improving a company's CSR performance does not affect institutional ownership. Bear et al. (2010) explored how board diversity and gender composition (the number of women on boards) affect CSR ratings. Rupley et al. (2012) found that voluntary environmental disclosure is positively associated with board independence, diversity and expertise.

The association between CSR and corporate governance has also been tested in emerging economies. By using Chinese firm data, Li & Zhang (2010) documented that corporate ownership dispersion is positively associated with CSR activities. Oh et al. (2011) conducted a

study by using Korean market data, and their results indicate that CSR ratings and institutional ownership are positively associated. Haniffa & Cooke (2005) focused on the Malaysian market, documenting that boards play an important role in CSR disclosures.

4.6.3 Regulatory Benefits

CSR also enables firms to avoid costly government-imposed fines. Especially in highly regulated industries, CSR has been found to promote better relations with regulators (Freedman & Stagliano, 1991; Shane & Spicer, 1983). High-CSR firms are also more likely to receive positive media coverage and favorable treatment from policymakers (Brown et al., 2006).

5.0 CSR Disclosure and its Impact

5.1 Information Contents of CSR Disclosures

Some scholars have given special attention to the nature, determinants and informational content of CSR disclosures, as well as their association with the valuation and behavior of firms. Some researchers believe that the informational content of voluntary CSR disclosures may provide some signals regarding firm performance (Ingram, 1978). Mahoney (2013) argues that firms use standalone CSR Reports as a signal of their superior commitment to CSR. Jeffrey (2008) describes “reputation risk management” as an explanatory framework for CSR reporting.

By analyzing the case of Sullivan Principles, Patten (1990) documented how investors used the information in CSR reports to modify investment decisions. Gelb & Strawser (2001) have argued that firms with better CSR performance have better financial and CSR disclosures. Ingram & Frazier (1980) found a positive, albeit weak, relationship between environmental performance and the contents of environmental disclosures. Epstein et al. (1994) have given an in-depth analysis on the demand side of the CSR reports.

5.2 Determinants of CSR Disclosures

Several scholars have investigated the determinants of CSR disclosures (Trotman & Bradley, 1981; Cowen et al., 1987; Roberts, 1992; Cormier & Magnan, 1999; Reverte, 2009; Webb et al., 2009; Chih et al., 2010, etc.). The primary determinants of CSR disclosures identified by researchers include corporate size, industry category, stakeholder power, strategic posture, economic performance, social constraints, systematic risk, management decision horizon, media exposure, information asymmetry, regulatory requirements, etc. Cho et al. (2010) found that there are self-serving biases in the language and verbal tone used in CSR disclosures, and the degree of bias varies systematically based upon CSR performance. In another study, Cho et al. (2012) investigated the extent to which CSR disclosures mediate the negative aspects of poor CSR performance associated with a firm's reputation.

5.3 Impacts of CSR Disclosures

In recent years, significant numbers of companies, regardless of their size and ownership structure, are investing millions of dollars in CSR activities, and these firms are proclaiming their CSR credentials by producing stand-alone CSR reports (KPMG 2011).² If CSR activities have a negative impact or no impact at all on firm value, then managers would not be interested in investing in and reporting upon their socially responsible actions in such a vigorous manner. Since CSR investments and CSR reporting are increasing, these trends imply that managers are encouraged to pursue CSR activities due to their positive effects on firms. While analyzing the demand side of CSR disclosures, Buzby & Falk (1978) found that the majority of mutual funds use CSR information when formulating their investment policies. Dhaliwal et al. (2012) have

²In 2011, 70% of listed companies, 50% of state-owned companies, 55% of companies owned by private equities and foundations, and 45% of family-owned, cooperative, and private companies issued stand-alone CSR reports. The overall rate was shown to have doubled in five years. (Source: KPMG International Corporate Responsibility Reporting Survey 2011).

argued that analysts also employ CSR disclosure information. They found that the issuance of stand-alone CSR reports is associated with lower forecast errors among analysts. Overall, CSR disclosures give a positive signal to different stakeholders, and it improves value relevance of other information disclosed by the firms.

5.4 Auditability of CSR reporting

Several studies have explored the potentiality and challenges of auditing CSR disclosures (Morimoto et al., 2005; O'Dwyer & Owen, 2005 and 2007; Cooper & Owen, 2007; Mock et al., 2007; Darnall et al., 2009; Kolk & Perego, 2010). By investigating the Nike case, DeTienne & Lewis (2005) asserted that CSR auditing offers a possible solution for companies seeking to improve the method and transparency of CSR reporting. Simnett (2009) hypothesized that companies seeking to enhance their reputation are more likely to have their CSR disclosures audited, although whether such services are obtained from the auditing profession does not seem to matter. Through a longitudinal case study conducted with two Big Four firms, O'Dwyer (2011) posited that audit firms have limited knowledge in assessing the completeness of sustainability reporting. Kok et al. (2001) have asserted that a clear definition of CSR and CSR standards are a must before the quality of CSR audit reports can be assured.

6.0 Concluding Remarks

There is no argument that corporations have responsibilities to society, but there is considerable debate as to how corporations' pro-social activities are associated with various firm-specific and market-specific economic dimensions. Both the theoretical as well as the empirical findings discussed above suggest that CSR plays a significant role in enhancing firm value by promoting employee productivity, ensuring better operating performance, expanding

the product market, improving capital market benefits, building a corporate reputation, and strengthening a firm's relationship with the society, regulators and other stakeholders. It may be asserted that firms align social goals with corporate goals where CSR is used as a strategic tool to maximize value, and firms with better CSR performance have greater potential to increase shareholder value as well as the value of other stakeholders.

Although researchers have found it quite challenging to define the specific constructs of CSR, in recent years, CSR-related archival research has increased due to greater availability of quantified and uniformly measured data. More consistent and generalizable CSR databases will provide an excellent opportunity for future researchers not only to examine new research issues in a more efficient manner, but to reexamine those research questions that have already been investigated by relying upon mere theoretical models or experiments. Regulatory bodies are now emphasizing the need to make CSR reports more standardized and uniformly comparable. This will in turn open valuable research avenues to investigate the effects of CSR on firm performance.

Several research issues that have been investigated to date have yielded inconsistent results. Future researchers will be able to perform more intensive investigations by using refined datasets and empirical models to determine if these inconsistencies are a byproduct of methodological issues. Future researchers will also be able to address the gap between various theoretical assumptions and identify more meaningful implications of firms' social activities. Several empirical findings in the literature appear lacking in sound theoretical supports. Future research should address these shortcomings in order to provide a more meaningful understanding of CSR and its overall effects on corporate performance.

Although existing CSR literature is multidimensional and diversified, there are several areas that remain untapped when viewing the entire body of literature. For instance, the link between CSR performance and audit quality, CSR disclosure quality and the relevance of financial reporting as it pertains to value, firm- or industry-specific characteristics and CSR disclosures, CSR performance and economic shock or other regulatory pressures, CSR investments as a response to political costs, CSR quality and a firm's strategic reporting, CSR behavior and accounting conservatism, and the impacts of CSR activities on merger and acquisition decisions represent underreported areas in the extant CSR literature. Future research can identify new and important issues in these areas and may well provide new theoretical and practical insights. Researchers can also investigate whether firm-specific criteria influences the value-enhancing capabilities of CSR. Comparative industry analyses can also be conducted to help determine whether CSR adds more value to certain industries. Overall, future research prospects offer ample opportunities to improve our understanding of myriad CSR activities and their effects on firm value.

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Appendix A: Selected journals used for article search

1.1 Accounting Journal

- a. The Accounting Review
- b. Journal of Accounting Research
- c. Contemporary Accounting Research
- d. Journal of Accounting and Economics
- e. Review of Accounting Studies
- f. Accounting, Organization and Society
- g. Journal of Accounting, Auditing and Finance
- h. Journal of Accounting and Public Policy

1.2 Finance Journal

- a. Journal of Finance
- b. Journal of Financial Studies
- c. Journal of Financial Economics
- d. Journal of Corporate Finance
- e. Review of Financial Studies

1.3 Management Journal

- a. Academy of Management Journal
- b. Academy of Management Perspective
- c. Academy of Management Review
- d. Management Science
- e. Journal of Management Studies
- f. Journal of Business Ethics
- g. Journal of Business

1.4 Other CSR-focused Journals

- a. Accounting, Auditing and Accountability
- b. Critical Perspective on Accounting
- c. Accounting Forum

Appendix B: Key words used for article search

- 1. Corporate social responsibility
- 2. Corporate social performance
- 3. Corporate citizenship
- 4. Corporate accountability
- 5. Corporate social rating
- 6. Corporate philanthropy
- 7. Environmental disclosures
- 8. Social accounting
- 9. Social screening

Table 1**Panel A: Research Type, Data Source and Focused CSR Areas in Selected Accounting Journals**

| <i>The Accounting Review</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|-------------------------------------|--|--|--------------------------|----------------------------------|
| Simnett et al. (2009) | Auditability of CSR disclosures - determinants, international comparison | Economic, environment, labor, human rights, product and society | Archival | Corporate Register |
| Kim et al. (2012) | CSR and earnings quality | Community, corporate governance, diversity, employee relations, environment, human rights, product | Archival | KLD |
| Dhaliwal et al. (2012) | CSR disclosure and forecasts errors | Community, corporate governance, diversity, employee relations, environment, human rights, product | Archival | KLD, Corporate Register, CSRwire |
| Dhaliwal et al. (2011) | CSR disclosure and cost of equity capital | Community, corporate governance, diversity, employee relations, environment, human rights, product | Archival | KLD, Corporate Register, CSRwire |
| Moser and Martin (2012) | Potential future research | | Commentary / descriptive | |

| <i>Accounting, Organizations and Society</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|---|------------------------------------|------------------------------------|----------------|--|
| Al-Tuwaijri et al. (2004) | CSR and economic performance | Environmental | Archival | Environmental Profiles Directory |
| Richardson and Welker (2001) | CSR and cost of capital | Environmental, Social | Archival | Society of Management Accountants of Canada, Company annual report |
| Cho et al. (2010) | CSR performance and CSR disclosure | Environmental | Archival | 10-K, stand-alone CSR report, media |
| Cho et al. (2012) | CSR disclosures | Environmental | Archival | KLD, 10-K, stand-alone CSR report |
| Buzby and Falk (1978) | CSR investment policy | Environmental, employee, charity | Survey | Survey |
| Cooper and Owen (2007) | CSR and stakeholder accountability | Environmental, community, employee | Descriptive | |

| <i>Journal of Accounting and Public Policy</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|---|--|--|----------------|--|
| Haniffa and Cooke (2005) | CSR reporting and culture | Environment, employee, community, product | Archival | Annual reports |
| Ilinitch et al. (1998) | Measurement of CSR | Environmental | Archival | CSP, Toxic Release Investor (TRI) |
| Linthicum et al. (2010) | CSR and corporate reputations | Community, corporate governance, diversity, employee relations, environment, human rights, product | Archival | KLD |
| Lanis and Richardson (2012) | CSR strategy and tax aggressiveness | CSR disclosure index - environmental, customers, suppliers, community | Archival | Aspect-Huntley financial database (for Australian firms) |
| Rupley et al. (2012) | Quality of CSR disclosures | Environmental | Archival | Toxic Release Inventory (TRI) database |
| Smith et al. (2010) | CSR disclosures and firms' investment behavior | Environmental, employee | Experimental | |

Panel B: Research Type, Data Source and Focused CSR Areas in Selected Management Journals

| <u><i>Academy of Management Journal</i></u> | Broad Topics | Specific CSR Area | Methods | Data Source |
|---|---------------------------------|--|---------------------|-------------------------------------|
| Abbot and Monsenn (1979) | Self-reported CSR disclosure | Environment, employee, community, product, equality | Archival | Content analysis |
| Alexander and Buchholz (1978) | CSR and stock performance | | Archival | Other study (Survey) |
| Aupperle et al. (1985) | CSR and profitability | Ethical, legal, discretionary, economic | Archival | SID (Social Involvement Disclosure) |
| Berrone and Gomez-Mejia (2009) | CSR and executive compensation | Environmental | Archival | TRI |
| Cochran and Wood (1984) | CSR and financial performance | Reputation index | Archival | From other study |
| Fogler and Nutt (1975) | CSR and stock performance | Environmental | Archival | Media |
| Graves and Waddock (1994) | CSR and institutional investors | Community, corporate governance, diversity, employee relations, environment, human rights, product | Archival | KLD |
| Harrison and Freeman (1999) | CSR and stakeholder management | Ethics, employee, community, environment, governance | Descriptive / notes | |
| McGuire et al. (1988) | CSR and firm performance | Environment. Employee, community, product | Archival | Fortune magazine annual survey |

| <i>Journal of Business Ethics</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|--|--------------------------------------|--|----------------|---------------------------|
| Barnea and Rubin (2010) | CSR and conflict between stakeholder | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Bear et al. (2010) | Board diversity and CSR | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Bird and Smucker (2007) | CSR and market valuation | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Cai et al. (2011) | CSR and executive compensation | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Chih et al. (2008) | CSR and earnings management | Environmental, social, community, human right | Archival | FTSE4Good Global Index |
| Chih et al. (2010) | Determinants of CSR | Economic, environmental, and social | Archival | Dow Jones World Index |
| Clacher and Hagendorff (2012) | CSR and shareholders' wealth | Environmental, social, community, human right | Archival | FTSE4Good Global Index |
| Gelb and Strawser (2001) | CSR disclosure | Environmental, employee, philanthropic, minority, community | Archival | CEP |
| Hong and Andersen (2011) | CSR and earnings management | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Jo and Harjoto (2011) | CSR and firm value | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Jo and Harjoto (2012) | CSR and corporate governance | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |

| <i>Journal of Business Ethics</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|--|--|--|----------------|---------------------|
| Li and Zhang (2010) | CSR and ownership structure | Environment, employee, consumer, society | Archival | SNAI (Chinese) |
| Mahoney and Thorne (2005) | CSR and executive compensation | Community, employee, product, environment, business practice | Archival | CSID (Canadian) |
| Mahoney and Thorne (2006) | CSR and long-term executive compensation | Community, employee, product, environment, business practice | Archival | CSID (Canadian) |
| Menz (2010) | CSR and bond market | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Mishra and Suar (2010) | CSR and firm performance | Environment, human right, governance | Archival | CMIE, IBID (Indian) |
| Oh et al. (2011) | CSR and ownership structure | Environment, Community, Corporate Governance, Customer Satisfaction, Employee | Archival | KEJI (Korean) |
| Padgett and Galan (2010) | CSR and R&D intensity | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Reverte (2009) | Determinants of CSR disclosure | Environmental, social, human right, product, employee | Archival | OCSR (Spanish) |
| Wang et al. (2011) | CSR and stock performance | Ethics, environment, consumer, society | Archival | Media publication |
| Ye and Zhang (2011) | CSR and debt market | Charity | Archival | Hand collect |

| <i>Journal of Business Ethics</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|--|-----------------------------------|---|----------------|---|
| Webb et al. (2009) | CSR disclosure | Community, diversity, environment, employee, human right, suppliers | Archival | 10-K, stand-alone report, proxy statement |
| Elias (2004) | CSR and bankruptcies | Ethics and social responsibility | Experimental | |
| Kok et al. (2001) | Auditability of CSR | Environment, community, consumer, suppliers, ethics | Descriptive | |
| Lindorff et al. (2012) | CSR in controversial industries | Employee, work place, environment, social | Descriptive | |
| Morimoto et al. (2005) | Auditability of CSR | Employee, supplier, community, customer | Descriptive | |
| Pava and Krausz (1996) | CSR and financial performance | Environment, reputation, employee, product | Descriptive | |
| Valentine and Fleischman (2008) | CSR and job satisfaction | Ethical, social, employee | Survey | |
| Hung (2011) | CSR and director's responsibility | Ethical, social | Survey | |
| Husted (2005) | CSR and risk management | | Note | |

Panel C: Research Type, Data Source and Focused CSR Areas in Selected Finance and Other Journals

| <i>Journal of Corporate Finance</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
|--|--|--|------------------------|---------------------------------------|
| Brown et al. (2006) | Corporate philanthropic practices and firm value | Philanthropic practices | Archival | Firm level data base |
| Huseynov and Klamm (2011) | CSR and tax avoidance | Community, corporate governance, diversity, employee, environment, human rights, product | Archival | KLD |
| Renneboog et al. (2008) | Performance of CSR mutual funds | Ethical, socially responsible, environmental, ecology, religion | Archival | SRI funds |
| Humphrey et al. (2012) | CSR and cost of capital | Environmental, social, community, product, governance | Archival | Sustainability Asset Management Group |
| <i>Other Journals</i> | Broad Topics | Specific CSR Area | Methods | Data Source |
| Barnett (2007) - Academy of Management Review | Stakeholders' influence on CSR activities | Community, corporate governance, diversity, employee relations, environment, human rights, product, charitable donations | Descriptive | |
| Ingram (1978) - Journal of Accounting Research | Information content of CSR disclosures | Environmental, fair business, employee, community | Modeling + Archival | Hand collect |
| O'Dwyer (2011) - Contemporary Accounting Research | Auditability of CSR reporting | Environmental | Survey / case analysis | |
| McWilliams et al. (2006) - Journal of Management Studies | Firm level determination of CSR | Environment. Community, employee, product | Descriptive | |

Figure 1: Domain of CSR and CSR disclosures literature

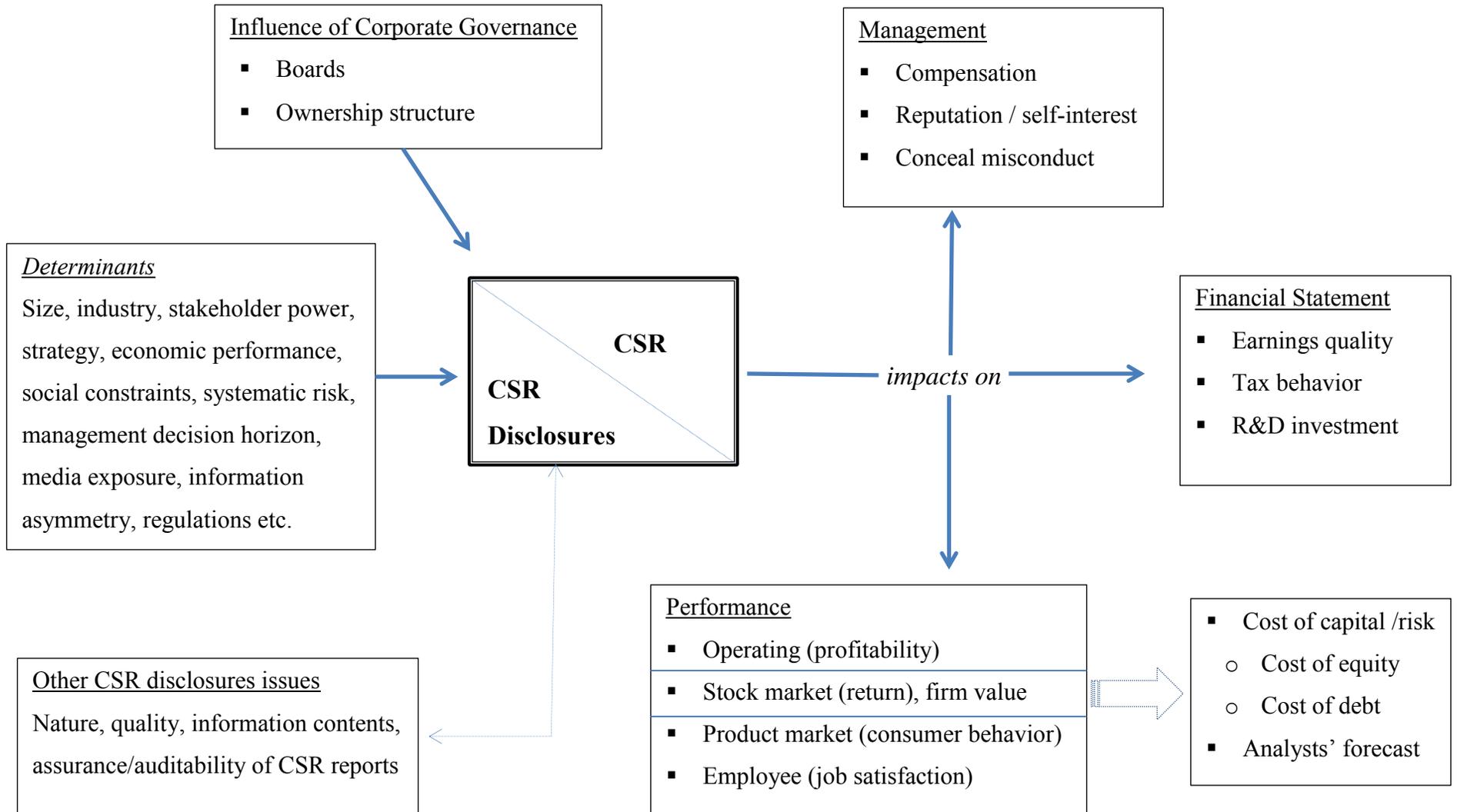


Figure 2 (a)

Common CSR Activities to Different Stakeholders

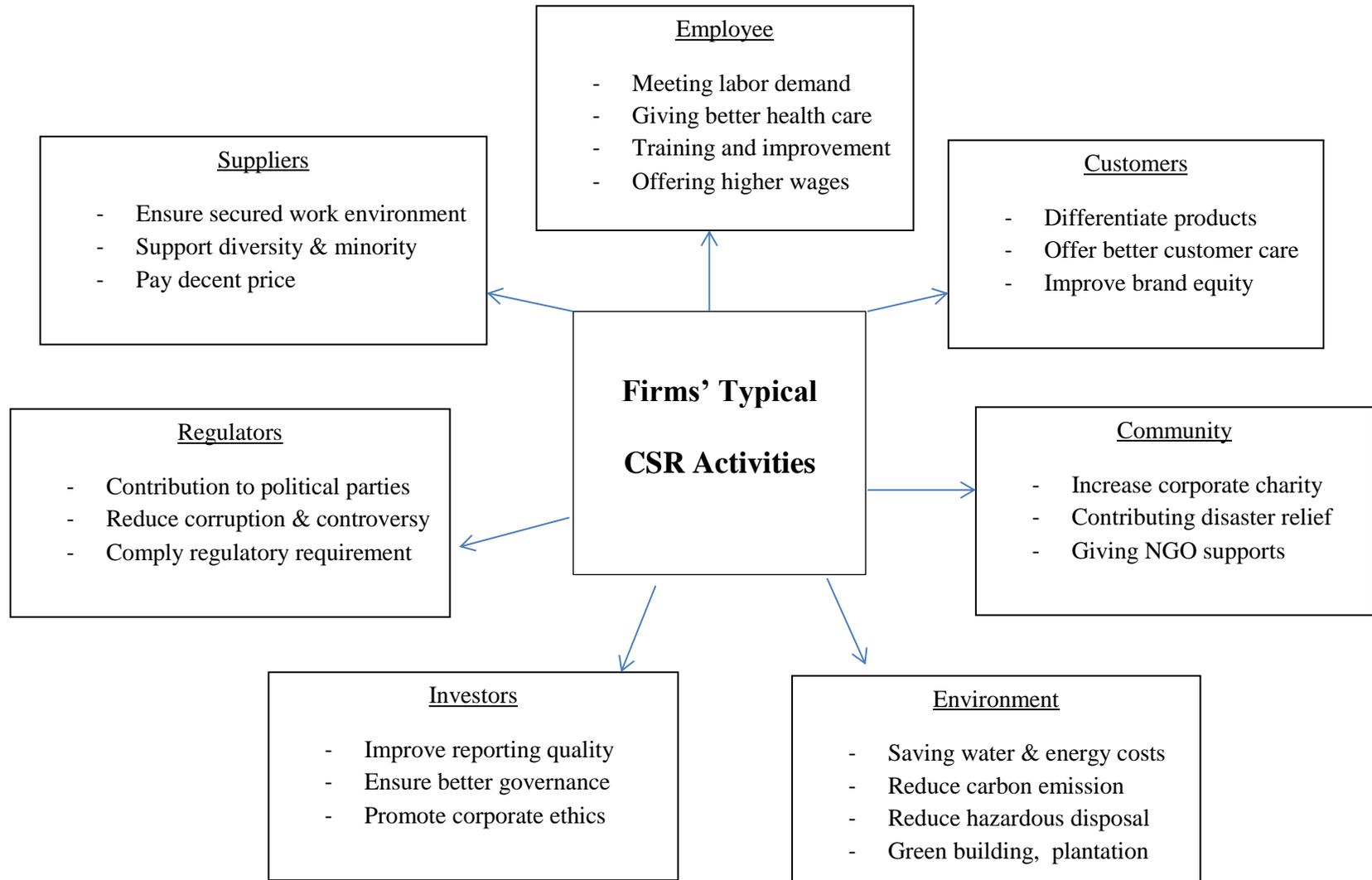


Figure 2 (b)

CSR Benefits Resulting in different Value-Enhancing Sources

