**Research Journal of Social Sciences & Economics Review**
*Vol. 3, Issue 2, 2022 (April – June)*
*ISSN 2707-9023 (online), ISSN 2707-9015 (Print)*
*ISSN 2707-9015 (ISSN-L)*
**DOI:** https://doi.org/10.36902/rjsser-vol2-iss2-2022(35-39)

**RJSSER**
*Research Journal of Social Sciences & Economics Review*

# Would Corporate Social Responsibility Act as a Double-edged Sword in a Pandemic (Covid-19)?

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## *Abstract*

*This study attempts to explore the impact of corporate social responsibility activities performed during the pandemic (Covid-19) on firm financial performance. For the purpose of data collection, semi-structured interview methodology is adopted. The data is collected from the respondents who are the customers/consumers of the food items and pharmaceuticals sectors. Based on the interviews it is found that CSR affects the firm financial performance. The findings of the study also suggest that CSR activities are the assets of the organization in the form of corporate reputation, competitive advantage, customer satisfaction, and brand equity. Moreover, CSR activities and financial performance bond grows stronger when firms genuinely perform CSR activities for the stakeholders in need. Our concrete conclusion is that genuine CSR activities provide hedge and act as a double-edged sword during the pandemic (Covid-19).*

*JEL classification:* G32, M14

**Keywords:** Corporate Social Responsibility, Financial Performance, Covid-19 Crisis

## Introduction

Whether CSR activities are costs or benefits for the business firms? Actually, this debate started when Friedman (1970) published an article in New York Times, where his focal point was to increase the profits for its shareholders. Though in the last five decades, substantial research has been done to examine the impact of CSR activities on firms' financial performance still the results are inconclusive and due to the recent pandemic (Covid-19), this topic has become a spirited debate. There are three views about CSR activities and firm financial performance that are presented in the literature. The first view that comprises a majority of the literature documents that CSR activities are positively related to firm financial performance and this view is based on the good management hypothesis. It states that if the firm performs CSR activities it would positively affect the firm financial performance. Busch and Friede (2018) conducted a second order meta-analysis and found a strong relationship between corporate social responsibility and firm financial performance. The second view states that there is a negative relationship between corporate social responsibility and firm financial performance, the supporter of this view argues that due to the agency cost negative relation arises between CSR and financial performance. The third view suggests that there is no relationship between the two.

Due to the increased attention by the stakeholders about CSR activities especially during the Covid-19 pandemic, this study provides the first-ever evidence that how customers/consumers think about the firms' genuine CSR activities which are performed during the pandemic. This study has some unique distinctions. First, this is based on the first-hand information which is collected from the customers/consumers. Second, this study has a contextual contribution in the literature. Third, this study is being conducted during a rare pandemic i.e. Covid-19. Problem remains unexplored that how genuine CSR activities affect the firm financial performance during the pandemic. To fulfill the gap that what is the impact of CSR activities performed during the rare pandemic on firm financial performance is the core objective of this study. This study has significance for all the concerned stakeholders, especially the firm's employees, managers, etc.

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Defining CSR is not an easy task, for example, Carroll (1999) defines CSR as "it means something, but not always the same thing to everybody". Another definition of CSR which is more relevant to this study is given as "actions that appear to further some social good beyond the interests of the firm and that is required by the law" (McWilliams & Siegel, 2001, p.117). Interviews were based on the idea of whether customers/consumers perceive the firms' genuine CSR activities as assets or expenses. CSR activities may be an expense, e.g. agency cost or it may produce some strategic assets like corporate reputation, brand equity, competitive advantage, and customer satisfaction. Based on the previous discussion, this study is going to explore the impact of CSR activities performed during Covid-19 on firm financial performance. Although firms may perform CSR activities based on stakeholder theory, legitimacy theory, or/and institutional theory but how customers perceived and react to those CSR activities is the central focus of this study.

Using a sample of 492 customers/consumers, this study found that genuine CSR activities are considered a long-term asset for the organization. These findings suggest to the policymakers that performing genuine CSR activities is not an expense rather these are considered long-term assets that will provide long-term benefits to the firms. The novel findings of this study are going to contribute in the literature. It is also suggested that further research can be conducted on the secondary data which may further contribute to the literature.

The remaining paper is organized as follows, section 2 is about the literature review, section 3 is based on the methodology, and section 4 is about the discussion of the results. In the last section of this study, the conclusion, recommendations, and implications are reported.

**Literature Review**

The importance of financial performance is very crucial for all the concerned stakeholders. Especially, when CSR activities are performed during the pandemic, the management expects that the stakeholders will give a favorable response to the firms. Therefore, this study explores the impact of CSR activities performed during the pandemic on firm financial performance. There is a large number of growing literature on CSR and financial performance. Furthermore, a second-order meta-analysis has been performed to test the relation between the two (Busch & Friede, 2018). There are numerous studies that tell that performing CSR activities affect firms positively in one way or the other, but some studies are closely related to this study. For example, this study is related to Lins et al. (2017) who found that firms show higher stock returns during crises. Their evidence suggests that this all happens when firms build trust. This trust may be built through investing in corporate social responsibility i.e., social capital.

Albuquerque et al. (2020) found that during the covid-19 crisis firms which have a higher rating with respect to environmental and social (ES) policies have significantly higher returns, less volatility in stock returns, and more operating profit margin. Moreover, they also found that those firms which spend a substantial amount on advertising have less volatility in their stock returns. In another relevant study, Bae et al. (2021) found in a cross-sectional analysis, that CSR and stock returns are more positively related when CSR activities are linked to the firms' institutional environment. According to Garel and Petit-Romec (2021), those companies that take care of the environment and have good environmental scores have better investor responses during Covid-19. These companies have a better stock return as compared to those companies which are less interested in environmental issues and climate changes. Some other related studies also test the relationship between a firm's social responsibility and performance (e.g., Alfaro et al., 2020; Bretscher et al., 2020; Fahlenbrach et al., 2020; Pagano et al., 2020; Ramelli and Wagner, 2020).

As discussed in the previous paragraph that firms get better performance when performing CSR activities that are related to the stakeholders' requirements, and firms may get more rewards from the concerned stakeholders. Despite the fact that it is proved with the help of secondary data that CSR activities and firm financial performance are positively related under normal economic conditions but analyzing the impact of genuine CSR activities performed during the pandemic is unique in nature. Moreover, this study is unique in its nature because this study examines how customers think about these CSR activities, and whether these CSR activities are helpful for companies to create intangible assets or not? Above all, this study is being conducted during the crisis when stakeholders can closely realize whether these CSR activities performed by the firms are genuine or merely for their own benefits.

Among the CSR theories, stakeholder and legitimacy theories are the most influential theories which support the idea that a firm will perform CSR activities to balance the expectation of the stakeholders and to get legitimized in the eyes of the concerned stakeholders. This, in turn, create intangible assets for the firms e.g. corporate reputation, customer satisfaction, etc. Based on the CSR theories and previous studies it is expected that genuine CSR activities performed during the pandemic (Covid-19) positively affect the firm financial performance.

Though a large number of researchers tested the direct relationship between CSR and financial performance there are also some studies (e.g., Alafi & Hasoneh, 2012; Wood, 2010) that suggest that measuring the direct relationship between CSR and financial performance could not depict the true picture. Therefore, measuring the true impact of genuine CSR activities on the firm financial performance through different phenomena may produce a better result. This discussion leads to the conclusion that the relationship between CSR and financial performance should be tested through some mediators. In the previous literature, CSR and financial performance are tested through the mediators, e.g., corporate reputation, customer satisfaction, competitive advantage, brand equity, etc. Based on the previous literature and theoretical justification the authors expect that CSR may affect the firm financial performance through some mediators.

**Methodology:**

Under the qualitative methodology, authors conducted the semi-structured interviews to get data regarding CSR and firm financial performance. The semi-structured interview is a useful technique in a situation where a new phenomenon may be explained and it is also useful to get larger data with minimum resources. To ensure reliable analysis and to address the issue of trustworthiness authors used the methodology which is widely used in the literature (Kallio et al., 2016). It is important to mention here that the value of qualitative research differs from quantitative research. As quantitative research is considered better for objectivity and generalizability whereas qualitative research is considered best where a particular phenomenon and a scenario needs to be explored.

Data is collected from the individuals who are the customers/consumers of the food items and pharmaceuticals. Interviews were conducted face to face and during the data collection process, it was made sure that the customers/consumers are the end users of small and medium enterprises (SMEs). The justification of SMEs is that if these companies perform CSR activities that might be genuine CSR activities because there is almost no media coverage. The authors approached 600 individuals, but 492 individuals could agree to share their views about the CSR activities of the firms.

**Results and Discussions**

As this study is qualitative, therefore, qualitative methodology is applied. In this type of methodology, authors focused on the words rather than the numbers. During the data collection process, different questions were asked from a diverse set of individuals. These individuals were the students, unemployed people, Govt. employees, and those who do the private jobs. To talk with respect to gender, both males and females were included in the sample of the study. With respect to education, the sample of the study is mainly consisting of those individuals who have a bachelor's degree. As the nature of this study is qualitative, therefore, inductive approach better explained the phenomenon.

**Descriptive Statistics:**

| | | **Gender** | |
|---|---|---|---|
| | Total number | Frequency | Cumulative frequency |
| Male | 396 | 80.5% | 80.5% |
| Female | 96 | 19.5% | 100% |

| | | **Education** | |
|---|---|---|---|
| | Total number | Frequency | Cumulative frequency |
| Matriculation | 45 | 9.1% | 9.1% |
| Intermediate | 34 | 6.9 | 16 |
| Bachelor | 390 | 79.2 | 95.3 |
| Master | 11 | 2.2 | 97.5 |
| Other | 12 | 2.4 | 100 |

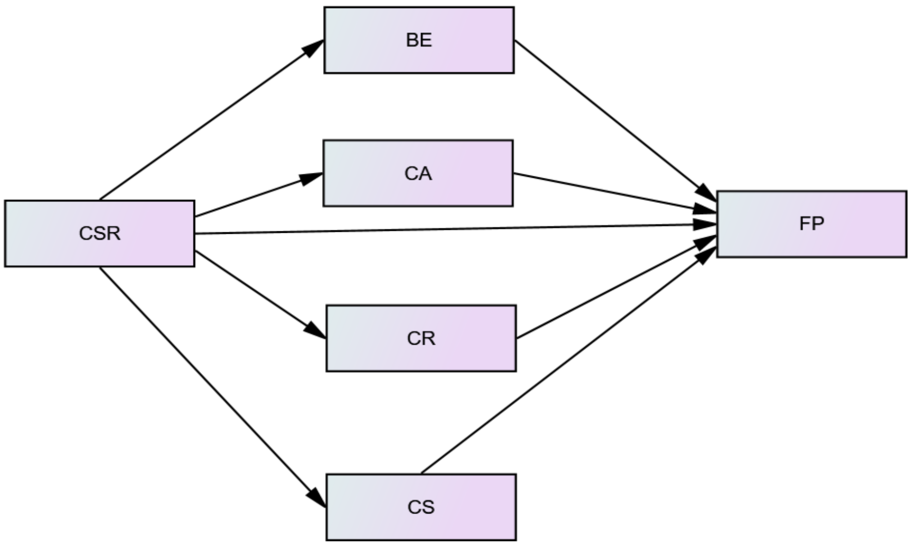
| | | **Social Status** | |
|---|---|---|---|
| | Total number | Frequency | Cumulative frequency |
| Unemployed | 34 | 6.9% | 6.9% |
| Students | 400 | 81.3 | 88.2 |

| | | | |
|---|---|---|---|
| Govt. Employee | 23 | 4.67 | 92.88 |
| Private Jobs | 25 | 5.0 | 97.96 |
| Other | 10 | 2.03 | 100 |

Based on the interviews, the proposed framework is given. In this framework, firm financial performance (FP) is the dependent variable, and CSR is the independent variable. There are four mediator variables namely, corporate reputation (CR), competitive advantage (CA), customer satisfaction (CS), and brand equity (BE). It is pertinent to mention here that though firm financial performance is measured through various proxies but most widely used and accepted indicator to measure financial performance is Return on Assets (ROA). Additionally, an increase in sales is also a measure of a firm financial performance. This study considers those CSR activities which are related to human rights, environment, and community.

**Proposed Theoretical Framework:**

It is important to mention here that the majority of the respondents said that they will continue to purchase those companies' products that performed genuine CSR activities during the pandemic and they also told that performing genuine CSR activities would increase the corporate reputation and would also enhance the brand equity. Based on the interviews authors conclude that genuine CSR activities will increase sales through corporate reputation and brand equity i.e. mediator variables. Some respondents also told that performing genuine CSR activities also produces customer satisfaction and a competitive advantage for the firms. Firms having a competitive advantage and customer satisfaction may produce better financial performance. Improved financial performance might be in the form of an increase in sales or return on assets.




Conceptual Framework

Although there are some limitations with these results but according to the given scenario the best methodology is the qualitative methodology and the inductive approach is utilized. Based on the mentioned methodology, it is concluded that corporate reputation is a very perfect mediator and this is also supported by the literature (Saeidi et al., 2015). In their study, they proved that corporate reputation and competitive advantage are the mediators which explained the indirect relationship between corporate social responsibility and firm financial performance. Based on the interviews it is concluded that brand equity is another strong mediator which acts as a mediator variable between CSR and financial performance. Kanwal and Malik (2018) found that brand equity is the mediator between corporate social responsibility disclosure and firm financial performance. It is important to mention here that other mediators (customer satisfaction, competitive advantage) are also important therefore, they are included in the theoretical framework.

**Conclusion**

This study explored the relationship between CSR and firm financial performance during the pandemic (Covid-19). Due to the recent pandemic, the importance of CSR activities has increased because performing genuine CSR activities for the betterment of the environment and society may create intangible assets in the form of corporate reputation, customer satisfaction, brand equity, and competitive advantage.

To collect the data, the authors conducted interviews with a diverse set of individuals. Based on the 492 respondents, this study found that genuine CSR activities will enhance the firm financial performance through the mediators, namely corporate reputation and brand equity. It is important to mention here that according to the respondents' views authors concluded that corporate reputation and brand equity are the perfect mediators through which CSR affects the firm financial performance and customer satisfaction whereas competitive advantage also acts as the mediator. Authors also found that if a firm performs genuine CSR activities during the pandemic it will help the firm to stabilize its profit. If the firms perform CSR activities just for the sake of it then customers do not have confidence in them and companies may not get benefit from such activities.

This study has the implication for the managers that if firms will perform genuine CSR activities, they may get the edge over other firms. For the purpose of future research, the proposed theoretical model can be tested through questionnaires and secondary data.

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