Article

Corporate Social Responsibility and Corporate Financial Performance: An Empirical Literature Review

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Abstract

This study aims to present a literature review of recent studies on the relationship between environmental, social and governance (ESG) performance, corporate social responsibility (CSR) and corporate financial performance (CFP) and to provide a path for future researches. Using content analysis method, a total of 88 papers published in renowned journals, over the period 2015-2021, were selected in the review. Several findings have been made: first, the majority of researches have focused on the CSR's "social impact" hypothesis on CFP; the reverse relationship seems to have been overlooked. Second, the contested results are likely to be attributable both to differences in research contexts and CSR's laws but also to biases relating to the operationalization of CSR concept and CFP proxies retained. Finally, several arguments are advanced arguing for an indirect link between CSR and CFP. Future research should, therefore, pay attention to the different contingent variables that are likely to affect the studied relationship.

Keywords: *Literature review, Corporate social responsibility, ESG performance, Firm performance, Firm value*

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Introduction

Facing a series of financial scandals and declining stakeholder confidence, several reforms have been launched worldwide aiming at advancing environmental, social and corporate governance (ESG) issues. The motivation was to move from a shareholder perception of values to a more global perception including the interests of all the stakeholders. As a result, CSR has emerged as a significant dimension for the development of sustainable strategies that affect any given firm performance (Eccles and Serafeim, 2013). In the same way, a large number of academic studies have analyzed the financial implications of CSR. However, the relationship between CSR, firm performance and profitability remains one of the most debated topics in this field since the implications of such a link are not without interest for managers and policymakers but also for shareholders.

CSR-CFP relationship is ambiguous. Although a majority of empirical studies are in favor of a positive link (Jeong et al. 2018; Chuang and Huang, 2018; Ghaderi et al. 2019; González-Rodríguez et al. 2019; Chung et al. 2018; Kim et al. 2018; Sroufe and Gopalakrishna-Remani, 2019), others advocate a negative or non-significant link (Chen et al. 2018; Duque-Grisales and Aguilera-Caracuel, 2019). These heterogeneous results can mainly be explained by the use of different measures of corporate social responsibility and firm performance (Galant and Cadez, 2017), the different studied periods and contexts, the choice of model specification and control variables (Benlemlih, 2017). Recent studies have deepened the understanding by investigating the channels through which the CSR impacts the firm value. Moreover, there is a growing interest in studying this relationship by industry and to study the impact of individual CSR components effects on firm value.

The main goal of this paper was to review the recent empirical literature focused on the impact of corporate social responsibility on firm value and profitability. Thus, its main objective was to provide a better understanding of the recent literature and help to identify how CSR affects firm performance. We provided an overview of the current state of research and suggested a future research scope in this field for the help of both academicians and practitioners.

The remainder of this paper is structured as follows. In the second section, we explained the adapted methodology in this literature review. In section three, we described the theories affecting the relationship between CSR and firm performance. In sections four and five, we introduced the different metrics of profitability, firm value and CSR. In section six, we

reviewed the empirical results before drawing the main conclusions of this review in the last section.

Review Methodology

The literature search was conducted in two steps. In the first, we began with a random search of articles with the help of various search items. We looked for search items in articles' titles, abstracts or keywords. Articles including the following keywords i.e. corporate social responsibility, corporate social performance, CSR, ESG, environmental performance, social performance, corporate sustainability together with profitability, corporate performance, corporate financial performance, firm value (and synonyms) published during the period January 2015 to August 2021 were included to the selection

To ensure the quality of the included studies in the review, we selected the articles, papers and chapters published by the following academic known publishers i.e. Springer, SAGE, Emerald, Inderscience, Wiley, MDPI, Routledge and Elsevier, in the second step. Almost all the studies are from journals which are available on the following indices i.e. Scopus Index, Australian Business Deans Council (ABDC) master list, Journal Citation Index of Web of Science. The above two steps allowed obtaining 88 empirical studies related to the corporate social responsibility, firm value and profitability relationship. Table 1 summarizes CSR, firm profitability and value metrics and the main conclusions of the selected papers.

CSR, Firm Value and Profitability Link: Theoretical Basis

Three theories have studied the relationship between social and financial performance of companies. The first, the agency theory suggests that social practices only make sense if they increase the shareholders' profit, considering that these practices only entail costs causing competitive disadvantages for the company. According to the agency theory (Jensen and Meckling, 1976), the objective of a company is to increase the wealth of shareholders. Friedman (1962) sums up this argument better by asserting that maximizing shareholders' profits is the sole social responsibility of the company. He identifies CSR as an agency problem in which managers misappropriate the wealth of shareholders to pursue a social mission of their choice. In addition, Friedman (1970) suggests that environmental or social responsibility activities that exceed the minimum legal standards would cause additional costs and therefore reduce the firm value. In fact, the use of resources for social spending places companies at a competitive disadvantage vis-à-vis competitors whose managers do not pursue a social mission

other than maximizing the shareholder value (Friedman, 1970). The agency model supports the hypothesis that a company engaging in low CSR is more efficient and profitable. In fact, it would not incur the same financial expenses as a company that invests in several forms of social responsibility, such as employee well-being, environmental protection and charitable donations.

From the agency theory perspective, a socially responsible investing may waste resources that can weaken, rather than strengthen, a business, with the shareholders' loss of wealth. Opting for investing in CSR is a decision based on principles that expose the company to a risk in relation to the objective of maximizing financial value (Jensen, 2001). Consequently, the firm is more exposed to the opportunistic behavior of managers who choose to overinvest in CSR so as to improve their image and their social legitimacy. For example, if a firm invests in equipment that reduces pollution to a greater degree than that required by law, the costs of this equipment may exceed the financial benefits granted to the investors. This situation goes against the good management practices.

The second, the stakeholders' theory claims that social responsibility is a duty for the company through which it improves the satisfaction of all stakeholders and therefore the economic and financial performance of the company. From the stakeholders' theory perspective, companies depend on stakeholders to survive since they provide the essential tangible or intangible resources necessary for their success (Hill and Jones, 1992). If stakeholders withdraw resources in whole or in part, a business may not be able to continue operating or endure financial disaster (Clarkson, 1995; Harjoto et al. 2015). The concept of stakeholders has been defined as "any group or individual who can affect or is affected by the achievement of the goals of an organization. In the broad sense, the term includes suppliers, customers, shareholders, employees, communities, political authorities (national and territorial), the media, etc. (Freeman, 1984). According to Freeman (1984), the stakeholder theory identifies the generation of value as a central engine of business, but similarly asserts that this value must be shared by a group of stakeholders that includes not only shareholders and managers but also all the actors who may have an interest in the activity of the company. This is the theoretical framework currently used by most research on social responsibility.

The positive effect of social responsibility on financial performance is best explained by the social impact hypothesis, which is itself based on the theory of stakeholders (Freeman, 1984). This hypothesis suggests that by meeting the demands and expectations of different stakeholders, companies are reforming their financial performance (Perrini et al. 2011). CSR

is considered a strategic tool for obtaining financial advantages by means of competitive advantages on the market (Porter and Kramer, 2002), an improved reputation (Fombrun and Shanley, 1990), a better brand image (Murray and Montanari, 1986) and more legitimacy (Hart and Christensen, 2002). For Cornell and Shapiro (1987), a company which ignores the preferences of interest groups will suffer a negative effect on its own reputation, thereby increasing its risk premium and, consequently, reducing its profitability. Regarding this aspect, Cornell and Shapiro (1987) argue that the cost of CSR is almost negligible compared to its potential benefits.

The third, the Resource-Based View (RBV) theory (Barney, 1991), provides enough arguments to support the hypothesis of creating competitive advantage from the exercise of CSR (Barney, 1991). This approach deals with the link between the internal characteristics of the company and its performance. Indeed, according to this theory, the performance differentials are mainly explained by the existence of company-specific resources supposed to be precious, scarce, difficult to imitate by rivals and not easily tradable on the markets (therefore hardly substitutable). For Barney, (1991); Bowman and Ambrosini, (2003), these resources must be "ambiguous" that is to say that the processes of their creation, are not completely known; they are also "complex" insofar as certain resources such as reputation, corporate culture are difficult to change in the short term, as they are "inimitable".

Furthermore, the resource-based approach defends the idea that CSR is used strategically by companies to create and consolidate a sustainable competitive advantage (McWilliams and Siegel, 2001; Zhao and al. 2019). Indeed, this approach suggests that CSR is one of the heterogeneous resources and skills whose mobility between firms remains imperfect, especially if we consider that these resources remain scarce, inimitable and non-substitutable. Thus, CSR and its perception by the different stakeholders can constitute a sustainable competitive advantage, a kind of "intangible" capital. For example, McWilliams and Siegel (2001) have shown that the addition of a social attribute to a product has an impact on demand and subsequently on the profitability of the company. Werner (2009) argues that CSR as an "intangible" resource is increasingly integrated into the various business processes and that, when well designed and adapted to the needs of the community and society, it may become a source of opportunities, innovation and a competitive advantage for companies.

The previous discussion suggests that corporate engagement in CSR could serve as a control mechanism to balance the interest of multiple stakeholder groups (Mason and Simmons, 2014). In addition, the satisfaction of all stakeholders tends to increase the reputation

of the company, which in turn has a positive impact on financial performance. Conversely, disappointment of stakeholders may have a negative impact on financial performance. This theoretical framework is at the center of the strategic management given the development of CSR and sustainability concepts that make the company better take into account the consequences of their activities on all stakeholders on the one hand, and the environment, on the other (Donaldson and Preston, 1995).

Table 1. An overview of the recent studies on the relationship between CSR and firm value and profitability discussed in this paper

Authors	Market	CSR Measure	Firm value and Profitability measures	Results				Mediator/moderator
				+	-	0		
Bai and Chang (2015)	International	CSR scores developed by authors	-Growth rate -Returns on investment (ROI)	√				Marketing competence
Saeidi et al. (2015)	Iran	CSR score developed by authors from annual reports	-Sales growth -ROE -ROS -ROA -ROI -Net profit margin of the firm	√				-Reputation -Competitive advantage
Wang et al. (2015)	China	Economic, Environmental, Social and Governance index developed by authors using the conceptual scheme of Dow Jones Sustainability Index	-ROA -ROE -Tobin's Q	√				
Youn et al. (2015)	U.S	CSR score, CSR strength score and CSR concerns score from	Tobin's Q	√				Firm size

		MSCI ESG (KLD) Stats					
Crifo et al. (2016)	France	CSR measures from Vigeo's	-Profitability ratios -Efficiency ratios -Employee-based ratios	√			
Hawn and Ioannou (2016)	International	ESG score from ASSET4 database by Thomson Reuters	Natural logarithm of Tobin's Q	√			
Agyemang and Ansong (2017)	Ghana	CSR items relying on questionnaire	-Sales growth -Profit growth -Leverage (Total equity/Total debts)	√			Reputation
Bocquet et al. (2017)	International	Firms with CSR practices (dummy variable)	-Average growth -Rate of growth in real price	√			Innovation
Choongo (2017)	Zambia	CSR score developed by authors using content-analytic methods	Seven statements compared to firm largest competitors based on a 5-point Likert scale	√			
Famiyeh (2017)	Ghana	CSR score developed by authors	-Sales volume -ROI -Market share	√			
Jitmaneeroj (2017)	US	ESG score from ASSET4 database by Thomson Reuters	Price-earnings ratio	√			
Lins et al. (2017)	International	CSR ratings from MSCI ESG (KLD) Stats	Stock return	√			

Martinez-Conesa et al. (2017)	Spain	-CSR with employees -CSR with customers -CSR with suppliers -CSR with local community From CSA Consultants Company	-Profits growth in the last 3 years -Return on assets growth in the last 3 years	√			Innovation performance
Nekhili et al. (2017)	France	CSR disclosure index developed by authors from annual reports	Tobin's Q	√			Family involvement
Price and Sun (2017)	U.S	CSR strengths and CSR concerns from MSCI ESG (KLD) Stats	Tobin's Q	√			
Velte (2017)	Germany	Aggregate ESG score and dimensions of ESG score from ASSET4 database by Thomson Reuters	-Tobin's Q -ROA	√		√	
Anser et al. (2018)	Pakistan	CSR score developed by authors using content-analytic methods	ROA	√			
Aouadi and Marsat (2018)	International	ESG score from ASSET4 database by Thomson Reuters	Tobin's Q	√			

Atan et al. (2018)	Malaysia	ESG rating from Bloomberg dataset	-ROE -Tobin's Q -Weighted average cost of capital			√	
Bajic and Yurtoglu (2018)	International	ESG score from ASSET4 database by Thomson Reuters	The natural logarithm of Tobin's Q	√			
Blasi et al. (2018)	U.S	CSR ratings from MSCI ESG (KLD) Stats	-ROE -ROA -ROI -ROS	√			
Buchanan et al. (2018)	U.S	ESG rating from Bloomberg dataset	Tobin's Q	√			Financial crisis
Chen et al. (2018)	China	-Natural logarithm of the ratio of industrial wastewater discharge to the total assets of firms in the city. -Natural logarithm of the ratio of SO ₂ emissions (in tons) to the total assets of firms in the city.	-Return On Assets (ROA) -Return On Equity (ROE)		√		
Chung et al. (2018)	Korea	Log value of the sum of all CSR dimensions scores provided by Korea Economic Justice Institution (KEJI)	Tobin's Q	√			Industry

Fatemi et al. (2018)	U.S	ESG performance, ESG strengths and ESG concerns scores from MSCI ESG (KLD) Stats	Tobin's Q	√			ESG disclosure
Kolsi and Attayah (2018)	UAE	CSR disclosure index developed by authors using content-analytic methods)	-ROA -Market-to-book ratio			√	
Liao et al. (2018)	International	CSR score developed by authors using content-analytic methods)	-ROA -ROE -Net earnings per employee		√		
Sheikh (2018)	U.S	CSR strengths and CSR concerns from MSCI ESG (KLD) Stats	Industry adjusted Tobin's Q	√			-Product market competition -Product fluidity
Jeong et al. (2018)	Korea	CSR score provided by Korea Economic Justice Institution (KEJI)	-Stock returns -Future financial performance	√			
Chuang and Huang (2018)	China	Environmental corporate social responsibility (ECSR) index using 12 items	Index of Business Competitiveness	√			-Green IT structural capital -Green IT relational capital
Guerrero-Villegas et al. (2018)	Spain	CSR score developed by authors using content-analytic methods	ROA	√			

Harjoto and Laksmana (2018)	U.S	CSR ratings from MSCI ESG (KLD) Stats	Tobin's Q	√			
Hasan et al. (2018)	U.S. (1992-2009)	CSR ratings from MSCI ESG (KLD) Stats	Tobin's Q	√			Total factor productivity
Kao et al. (2018)	China	CSR rating from the China CSR Research Center	Tobin's Q	√			Firm ownership type.
Kim et al. (2018)	U.S	CSR strengths and CSR concerns from MSCI ESG (KLD) Stats	Tobin's Q	√			Firm's competitive-action level
Maqbool and Zameer (2018)	India	CSR score developed by authors using content-analytic methods	-ROE -ROA -Net Profit -Stock return -Private equity	√			
Miller et al. (2018)	U.S	A dummy variable that equals one if a bank moves from a non-compliant with Community Reinvestment Act (CRA) rating in the prior period to a satisfactory CRA rating in the next period, zero otherwise.	ROA	√			
Ramanathan (2018)	UK.	- Environmental certifications -Self-evaluation of environmental	-Sales growth -Improvement in market share.	√			

		1 performance over the past 5 years.					
Rasheed et al. (2018)	Pakistan	-Sum of spending on environment, social activities, employees welfare and philanthropy -Total CSR words in an annual report	-Earnings per share -Profit before tax -Return on sales -Return on equity -Return on assets	√			
Sial et al. (2018, a)	China	11 items measure referring to GRI Sustainability Reporting Guideline or Not	Tobin's Q	√			
Sial et al. (2018, b)	China	CSR ratings provided by Rankins (RKS)	Tobin's Q	√			Earnings management
Yoon et al. (2018)	Korea	ESG scores from the Korean Corporate Governance Service (KCGS)	-Book Value per share -Earning per share	√			
Yu et al. (2018)	International	ESG disclosure rating from Bloomberg dataset	Tobin's Q	√			
Akben-Selcuk (2019)	Turkey	CSR takes the value of 1 if firm is in the Borsa Istanbul Sustainability Index and 0 otherwise	ROA	√			ownership concentration
Al-Hadi et al. (2019)	Australia	75 items of CSR activity	Financial distress		√		Mature life cycle stages

		based on Global Reporting Initiative (GRI) G4 sustainability reporting guidelines	measured by models in previous literature				
Bing and Li (2019)	China	CSR rating from Bloomberg dataset	Tobin Q		√		
Broadstock et al. (2019)	Japan	ESG score from MSCI ESG (KLD) Stats	-ROA -ROE -Tobin's Q	√			
Cao et al. (2019)	U.S	Economic, Environmental and Social scores developed by authors	-Abnormal-return of the stock price -Idiosyncratic-risk of the stock price		√		
Chang et al. (2019)	International	ESG score ASSET 4	Tobin's Q	√			Media freedom
Cherian et al. (2019)	India	CSR score developed by authors using content-analytic methods	-ROA -ROE -Return on capital employed -Profit before taxation -Market to book value (MTBV) -Leverage Turnover	√			
Duque-Grisales and Aguilera-Caracuel (2019)	International	ESG score from ASSET4 database by Thomson Reuters	ROA		√		-Financial slack -Geographic international diversification
Garcia et al. (2019)	International	ESG score from ASSET4 database by	-ROA -Free cash flow -Market capitalization	√			

		Thomson Reuters					
García-Sánchez and Martínez-Ferrero (2019)	International	Strength and concern ratings from EIRIS database	Tobin's Q	√			CEO ability
Ghaderi et al. (2019)	Iran	CSR items relying on questionnaire	Questionnaire	√			
González-Rodríguez et al. (2019)	Spain.	Questionnaire to the hotel general managers related to four dimensions of CSR: Environmental, local community, customer, and labor	-Profit margin -Revenue per available room -Net profit				Reputation
Hou (2019)	Taiwan	CSR awards as a social responsibility indicator	Tobin's Q	√			
Landi and Sciarelli (2019)	Italy	ESG ratings issued by Standard Ethics	Abnormal returns		√		
Murwaningsari (2019)	Indonesia	Statements of corporate social responsibility disclosure from annual reports	Tobin's Q	√			
Nekhili et al. (2019)	France	ESG score from ASSET4 database by Thomson Reuters	Tobin's Q	√			

<u>Sekhon</u> and Kathuria (2019)	India	CSR score developed by authors using content- analytic methods	-ROA -ROE -Net Profit Margin			√	
Siueia et al. (2019)	Republic of South Africa and Mozambique	CSR score developed by authors using content- analytic methods	-ROA -ROE			√	
Sroufe and Gopalakrishna-Remani (2019)	U.S	ESG disclosure score from Bloomberg dataset	-ROI -ROA -Net profit margin	√			
Velte (2019)	Germany	ESG performance (in total and its three pillars) from from ASSET4 database by Thomson Reuters	ROA	√			CEO power.
Walker et al. (2019)	International	CSR strengths and CSR concerns from Sustainalytics ratings	Tobin's Q	√			Institutional environment
Zhao et al. (2019)	China	ESG score developed by authors from annual reports	Return on capital employed	√			
Zolotoy et al. (2019)	US	ESG score from MSCI ESG (KLD) Stats	Tobin's Q	√			local religious norms
Awaysheh et al. (2020)	US	CSR score from MSCI ESG (KLD) Stats	Tobin's Q	√			
Bardos et al. (2020)	US	CSR score from MSCI	ROA	√			product market perception

		ESG (KLD) Stats					
D'Amato and Falivena (2020)	Western Europe	ESG score from MSCI ESG (KLD) Stats	Tobin's Q	√			firm size firm age
Franco et al. (2020)	International	ESG score	ROE	√		U-shaped	Quality management
Jahmane and Gaies (2020)	France	ESG score ASSET 4	-ROA -ROE -Tobin's Q	√			Financial instability
Jha and Rangarajan (2020)	India	ESG score	ROA			√	
Long et al. (2020)	China	RKS score	ROA	√			state ownership industry competition
Nirino et al. (2020)	European firms listed in the STOXX Europe 600 index	ESG score	Tobin's Q	√			Intellectual capital
Rjiba et al. (2020)	International	ESG score	Tobin's Q	√			Economic policy uncertainty
Sul and Lee (2020)	Korea	ESG scores from the Korean Corporate Governance Service (KCGS)	Tobin's Q	√			
Wu et al. (2020)	China	RKS score	ROA	√			-Financial distress
Zhang et al. (2020)	China	ESG disclosure score from Bloomberg dataset	Tobin's Q	√			green innovation
Abdi et al (2021)	international	ESG score ASSET 4	MTB	√			Firm size Firm age
Chouaibi and Chouaibi (2021)	International	ESG score ASSET 4	MTB	√			green innovation
Cordeiro et al. (2021)	India	CSR ratings	-ROA			U-shaped	family firms

			-Annualized stock return			curvilinear	
Fourati and Dammak (2021)	International	Economic, environmental, social and governance scores	-ROA -ROE	√			Corporate reputation
Park (2021)	Korea	KEJI Index	ROA	√			
Pekovic and Vogt (2021)	International	CSR score from MSCI ESG (KLD) Stats	Tobin's Q	√			board size gender diversity and ownership concentration
Ramzan et al. (2021)	Pakistan	The natural log of the actual amount spent on CSR activities	-ROA -ROE -Earnings Per Share -Net Profit Margin	√			
Ratajczak (2021)	International	Two CSR dimensions (environmental and social)	Price to book value	√			Natural and social resources
Rossi et al. (2021)	European countries	ESG score ASSET 4	-ROA -ROE -Tobin's Q -MTBV	√			Board characteristics (Duality, Independence, Board size)
Thuy et al. (2021)	Vietnam	content analysis method	ROA	√			Financial statement comparability

Metrics of Profitability and Firm Value

Largely, it is complicated to establish a complete definition and clear methodology for firm performance. However, scholars have suggested several definitions and methodologies. Zahay and Griffen (2004) defined firm performance as the firm ability to achieve its goals while meeting the needs of its stakeholders. Ramezan et al. (2013) referred to firm performance as the ability to effectively gather and manage their assets in terms of human, financial or physical assets in order to accomplish their desired goals.

Firm performance can be measured by financial or non-financial indicators. In the literature, it is agreed that the use of the term firm performance is generally related to the

financial aspect. Indeed, several authors use it interchangeably with profitability and market value of the company. Only a few studies established the difference between profitability and firm value. The two terms seem to overlap. Profitability is generally measured by accounting measures (ROA, ROE, Net profit, ROS, Return on capital employed). These same measures are used in other studies to measure the financial performance. Some authors measure market value mainly by stock return and private equity, the market to book ratio and the Tobin's Q. Other authors used questionnaires to construct a performance measure based on the items related to -earning per share -firm growth -net earnings per employee. These measures are generally more personalized and adapted to the studied industry. For example, in their study of luxury Andalusian hotels, González-Rodríguez et al. (2019) measure the performance of the hotel by revenue per available room. Some other authors consider leverage (total equity / total debt) as a measure of financial performance. The most recent studies focus on stock returns and future financial performance (Jeong et al. 2018) and abnormal returns (Landi and Sciarretti, 2019; Jeong et al. 2018; Cao et al. 2019) to consider such a measure.

In our literature review, the most used measure of firm performance is Tobin's Q. This measure is also used as firm value measure. The choice of this measure is based on three motivations. First, it brings together stock and accounting data and reflects market expectations for future profits. Unlike accounting measures that are based on past events, Tobin's Q focuses on expectations for future performance. Second, compared to accounting measures such as ROE/ ROA/ROI, it is less sensitive to management's choices regarding the principles of asset valuation. Third, the accounting measures are subject to a lot of criticism. In particular, the accounting standards still differ from one country to another. Therefore, these measurements do not allow for a reliable international comparison. On the other hand, questionable practices and accounting fraud can be practiced so that the evaluation of the performance is no longer credible.

CSR Metrics

We can suggest that the concept of CSR is self-defined; firms are encouraged to behave in a "socially responsible" way. However, such simplistic clarity is illusory. The Commission of the European Communities has tried on several occasions to define corporate social responsibility. In 2001, CSR was defined as "A concept by which companies integrate social and environmental concerns into their business operations and into their interactions with their stakeholders on a voluntary basis" (Commission of the European Communities, 2001).

Corporate social responsibility is therefore defined as essentially a concept according to which companies voluntarily decide to contribute to a better society and to a cleaner environment. Later, the Commission of the European Communities extended the previous definition to include the economic dimension. In 2002, CSR was defined as “Corporate social responsibility concerns companies with responsibilities and taking measures beyond their legal obligations and their economic and commercial objectives. These broader responsibilities cover a range of areas, but are often summarized as social and environmental. This can be summarized as the triple performance approach: that is, economic, social and environmental” (Commission of the European Communities, 2002). A broader definition has been proposed by the United Nations: “CSR can be defined as the global contribution of companies to sustainable development”. In a conceptual study, Jones (1980) defines CSR as “The notion that companies have an obligation to the constituent groups of society other than shareholders and beyond what is prescribed by law or the union contract...” Another definition that highlights stakeholders was proposed by Van Marrewijk (2003) “In general, corporate sustainability and CSR refer to corporate activities - voluntary by definition - demonstrating the inclusion of social concerns and environmental issues in business operations and in interactions with stakeholders”. McWilliams and Siegel (2001) add that “CSR is a set of actions that seem to promote a social good, beyond the interests of the company and what is required by law”.

In short, there is approval that social responsibility consists in taking into account the consequences of firm's activity not only on the basis of its financial performance but also on its social and environmental performance, as well as on its relations with the various stakeholders and the objectives of the sustainable development, either on mandatory (regulatory) or on voluntary bases. Although the concept of CSR is widely defined and debated in literature and practice, there is still no consensus on its measurement. Indeed, various measurements of CSR were used in the literature. Some authors have used a dummy variable to measure CSR (Bocquet et al. 2017; Miller et al. 2018). This measure does not allow reflecting and analyzing in detail the relationship between CSR and firm performance. In fact, companies engage in CSR at different levels. A dummy variable does not reveal the company's commitment. Other authors, therefore, have developed scores by themselves. These scores are personalized in relation to the country and the firms studied. The scores are constructed either from a firm-by-firm questionnaire or by content analytic method based on annual reports. The items used in these scores are generally extracted from the global reporting initiatives. Most authors opted for pre-calculated scores issued by extra-financial rating agencies.

It is interesting to note that extra-financial rating agencies provide ratings that allow better evaluation of companies according to the so-called ESG (Environmental, Social and Governance) criteria which form the three most relevant pillars in the extra financial analysis. The most known extra-financial rating agency is MSCI ESG Research. It is made up of the absorption of several historical ESG research providers. Thus, it bought RiskMetrics in March 2010, which itself bought ISS (Institutional Shareholder Services) in 2007, Innovest Strategic Value Advisors and Kinder, Lydenberg, and Domini (KLD) in 2009. The rating aims to assess the risks and companies' environmental, social and governance (ESG) opportunities on the basis of an "AAA" to "CCC" scale depending on their exposure to industry-specific ESG risks and their ability to manage these risks in relation to their peers. The MSCI ratings have been accessible via the Factset database since 2012.

In partnership with financial and ethical organizations, the Vigeo Eiris agency generates indices and ratings to rank the best performing companies in terms of CSR. The Vigeo agency notes the performance of companies on the basis of 38 ESG issues grouped into six areas: Environment, Social commitment, Human rights, Human resources, corporate governance, and behavior on the markets. Ratings in terms of absolute performance range from 0 to 100. This score is used to assign a performance rating from - - to + +. Sustainalytics which is an agency specializing in ESG research and rating, assesses the ESG performance of companies using 70 specific indicators weighted according to the sector of activity. It assesses CSR performance using the best of the sector approach, called "Best in class" or even "Best of Sector", making it possible to identify the leaders and red lanterns of each sector of activity. This agency also provides analyses on the firms involvement degree in controversial sectors (tobacco, alcohol, weapons, fur, gambling, nuclear) as well as the assessment of the exposure of States to the main ESG risks (natural risks, their level of human development, respect for freedom such as freedom of the press, etc.). From 2009, Thomson Reuters acquired the provider of ratings for the Swiss ESG practices Asset4. Thomson Reuters identifies 10 categories across the three ESG dimensions for non-financial ratings. More specifically, the use of resources, emissions and innovation from an environmental perspective; workforce, human rights, community and product responsibility under the social and management dimension, shareholder rights and CSR visions and strategies under the governance dimension. Thomson Reuters also provides ESG controversy scores that reflect poor CSR practices. Regarding ESG scores, authors frequently use each indicator in its own right to test the component that has an impact on the financial performance.

CSR, Profitability and Firm Value Link: Empirical Literature

Although the relationship between CSR and financial performance was widely examined empirically, the results are still inconclusive. A number of authors have found a negative or insignificant effect (Chen et al. 2018; Duque-Grisales and Aguilera-Caracuel, 2019). This negative association is explained by the waste of precious resources by an overinvestment in CSR. As a result, companies can improve their performance and reduce their risk by reducing CSR investments. On the other hand, the negative association can be explained by mandatory CSR reporting in several contexts e.g. Chinese firms are required to report CSR information. Mandatory CSR reporting alters the firm behavior and generates positive externalities at the expense of shareholders (Chen et al. 2018). Moreover, a negative or insignificant relationship is explained by the time horizon of the analysis. Yang (2016) argues that there may be a short-term negative relationship, but the long-term positive relationship will eventually dominate. Other studies confirm that a socially responsible behavior has a positive impact on a firm profitability and value (Jeong et al. 2018; Chuang and Huang, 2018; Ghaderi et al. 2019; González-Rodríguez et al. 2019; Chung et al. 2018; Kim et al. 2018; Sroufe and Gopalakrishna-Remani, 2019).

These confused results in the recent literature can be attributed to several factors. First, the different measures of CSR and firm profitability and value may be at the origin of this misconception. For German companies, Velte (2017) notes that ESG performance exerts a positive impact on ROA but have no impact on Tobin's Q. Likewise, the multidimensionality of the concept of CSR may be behind the mixed results. In fact, the different CSR components can have different effects on firm performance. Each component has a distinctive effect on performance. If we combine two components with contradictory effects, the result of the impact of the overall CSR measure might be insignificant or even take the sign of the component that has the greatest impact in absolute value. For example, Velte (2017) notes that environmental and social performances have weaker impact on financial performance compared to governance performance. In addition, CSR scores assess negative and positive practices. The combination of these components can generate an insignificant result. The separation of positive and negative practices is relevant. Moreover, several recent studies have separated the two aspects in the study of the CSR- firm value relationship. Almost all of these studies found that ESG good practices increase the firm value and that ESG bad practices decrease it (Fatemi et al. 2018; Price and Sun, 2017). The disclosure of information on ESG practices (good and bad) lowers the value of the company due to the nuanced picture that emerges once the

disclosure of good practices interacts with the disclosure of bad practices. In case the company has a high social performance, a revelation of high ESG information weakens the positive valuation effect of good practices. One possible explanation for this conclusion is that markets can interpret an increased disclosure as the company's attempt to justify overinvestment in ESG activities. On the other hand, disclosure weakens the negative effects of bad ESG practices, because disclosures help companies justify their irresponsible behavior by explaining to investors the relevance of their ESG operations and policies or because they persuade investors that they have made credible commitments to overcome these bad practices. We may note that the distinction between CSR strengths and concerns is a major distinction in various social or sustainability indices. We may also note the recent literature tendency to emphasize this distinction and the relationship between these different components on the firm value (Youn et al. 2015; Price and Sun, 2017; Fatemi et al. 2018; Al-Hadi et al. 2019; Kim et al. 2018; Walker et al. 2019).

Second, the study of different contexts and different periods can be the origin of confusing results regarding the relationship between CSR and firm value. For some contexts, laws requiring the disclosure of the social and environmental consequences of firm activities in annual reports are introduced. In France, article 116 of the law on the New Economic Regulations (NRE) asserts that listed companies must communicate information relating to their social and environmental impacts in their annual reports. It is important to note here that this law does not provide for any sanction or judgment for the activities of companies. By this article, the law does not prescribe social rules to be implemented, new polluting emission thresholds, or the use of renewable energies. Thus, this law does not create an obligation “to do” but an obligation “to say”. Indeed, it forces the company to publish information on its CSR; the only action constraint is therefore the collection of information and the drafting of the report in question. For other contexts, CSR is not well established, and companies are not required to invest in CSR by law. It should be noted that over 20% of under review studies were rather interested in the American context. Recent studies have extended the analysis to different developed and developing countries.

Third, recent studies highlighted the importance of the industry to which the company belongs. Indeed, industry can determine the relationship between CSR, firm value and profitability. Blasi et al. (2018), show that companies, operating in the Oil and Gas sectors, are investing more in all CSR areas. They found that the CSR engagement measured by an ESG score extracted from the KLD database increases financial performance and reduces financial

risks. After comparing the results of manufacturing and non-manufacturing industry corporations, Chung et al. (2018) show that Soundness, Fairness, Consumer, Environment, Employee, and Development have significant effects on Tobin's Q. However, the Social score has no significant effect for manufacturing firms. In contrast, the results for corporations in other industries show that only Social, Employee, and Development scores have significant relations with Tobin's Q, and that Soundness, Fairness, Consumer, and Environment have no significant effects. Another trend in the literature is the study of the CSR firm value relationship for banks (Maqbool and Zameer, 2018; Miller et al. 2018) and firms belonging to the tourism sector (González-Rodríguez et al. 2019; Ghaderi et al. 2019; Youn et al. 2015). The separate study of banks is explained by the fact that studies related to corporate governance excluded financial institutions from the analysis due to the difference in their accounting measures and governance system compared to other sectors.

Finally, recent literature reveals channels through which CSR impacts firm value and profitability. In fact, corporate social responsibility can create additional benefits for the company that may affect its value and profitability. On the one hand, several papers have sought moderators of this relationship. For the French context, Nekhili et al. (2017) reveal the moderating role of family property in the relationship between the disclosure of information on CSR and the financial performance assessed by Tobin's Q. In the same context, Nekhili et al. (2019) suggest that employee directors in the board of directors moderate this relationship. For the U.S. listed firms, Fatemi et al. (2018) reveal that ESG disclosure plays a crucial moderating role by mitigating the negative effect of concerns and attenuating the positive effect of strengths. In their turn, Youn et al., (2015) note that firm size moderates the effect of CSR strengths on financial performance but does not moderate the effect of CSR concerns on financial performance in the U.S. restaurant context. A study on the impact of the different ESG dimensions on the ROA, conducted by Duque-Grisales and Aguilera-Caracuel (2019), notes that the financial slack and geographic international diversification play a moderating role in the relationship. However, Anser et al. (2018) failed to reveal a moderating effect of innovation in the relationship between CSR and firm profitability measured by ROA.

On the other hand, most of the recent studies tend to focus on finding out mediators for the CSR-business performance relationship. In fact, Agyemang and Ansong (2017) specify that access to capital and firm reputation mediate the CSR and firm performance relationship. In fact, CSR exerts a direct effect on firm reputation and its access to capital which in turn improves the firm financial performance. Similar results were revealed by Saeidi et al. (2015).

The authors show an indirect role of CSR in promoting firm performance through enhancing reputation and competitive advantage while improving the customer satisfaction level. According to Martinez-Conesa et al. (2017), the firm's innovation contributes to explaining the relationship between CSR activities and financial performance.

Furthermore, several other studies have shown that companies with a higher CSR commitment face fewer constraints (Al-Hadi et al. 2019), reduce their equity and corporate debt cost (El Ghoul et al. 2017). Recently, Cui et al. (2018) have noted a negative effect of the CSR on the information asymmetry in American companies. Indeed, socially efficient companies are more closely followed by analysts and receive more favorable recommendations from them (Ioannou and Serafeim, 2015), which leads to greater accuracy in the analysts' forecasts (Dhaliwal and al. 2012). In addition, CSR improves communication with shareholders on financial matters and encourages more effective corporate governance and greater corporate value (Jo and Harjoto, 2012). These studies can be considered as the starting point for a deeper research into other mediating and moderating effects of the CSR-firm performance relationship.

Conclusion

In this study, we presented a literature review of the recent studies that have investigated the relationship between corporate social responsibility and firm performance. We showed that studies on this relationship have evolved and covered a wide variety of topics such as the effect of the CSR different components on financial performance, distinction between strengths and concerns in the analysis, dependence on the industry relationship to which the company belongs and the possible mediators and moderators of the relationship. In spite of this growing body of literature on this relationship, there are still many questions that have not received adequate replies yet. First, given the mixed results of the relationship between CSR and firm value, it would be interesting to seek an optimal CSR level and the shape of the relationship. It means that investing below or above this optimal level can have a negative effect on financial performance. From an agency perspective, managers tend to over invest in CSR and shareholders set up mechanisms to control the intensity of investment in CSR so as not to negatively affect the company value. At this point, it would also be relevant to study the impact of the ownership structure on the optimal CSR level. Second, another interesting research path could be the examination of the reverse causality in the CSR- Firm performance relationship. In fact, the studies on the financial performance impact on CSR are rather scarce. Third, It

would be interesting to intensify the future research following the steps of (Liao et al. 2018; Hawn and Ioannou, 2016; Walker et al. 2019; Bajic and Yurtoglu, 2018; Aouadi and Marsat, 2018; García-Sánchez and Martínez-Ferrero, 2019) how adopted a meta-analysis research and apply it to establish an international comparison between companies from different countries and carry out an analysis by industry to identify the dependence of the relationship on the context analyzed and the characteristics inherent in the meaning and intensity of the impact. Fourth, in the study of the impact of the different components of the CSR index on the value of the company, some authors made the difference between strengths and concerns. On the other hand, Price and Sun (2017) made the exception of studying the intensity and sustainability of the impact of strengths which reflect both responsibility and concerns. These authors concluded that corporate irresponsibility has a greater and longer lasting impact than corporate social responsibility on the value and risk of companies. One interesting question in this context could address the kind of mechanism through which irresponsibility is more influencing than responsibility on the firm value. Finally, the underlying mechanisms through which CSR affects the firm value and profitability are not well understood. Several papers in our suggested literature review assumed that the relationship is not direct and tried to find channels through which CSR affects the firm value. We may note that most of the mediators such as the reputation, competitive advantage and innovation performance of the company are intangible. We can conclude that this relationship has attracted a great deal of research and will still attract a great deal of research ever in the future.

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