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The Financial Impact of CSR Activities on Companies

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Abstract: Corporate Social Responsibility, or CSR, has always been an integral part of a company's public affairs strategy, through research, it has been found that it has been a contributing factor in a company's financial performance as well.

Though this fact has existed to be true for some time, it has not been made completely known. We conducted a survey of a sample size of over 120 people from which only 18.9% of the respondents believed that companies that actively engage in CSR activities perform better financially than those that do not, though research indicates the opposite to be true.

Through this paper, we aim to enforce the belief that CSR has an impact on companies' financial performance, as well as simply glorifying their respective brand images.

Keywords: Corporate Social Responsibility (CSR), Financial Performance, ESG (Environmental, Social, and Governance) Investing, Regulatory Compliance, Stock Market Performance, CSR Strategies, Corporate Legitimacy, Sustainability Reporting, Corporate Ethics, Business Responsibility

I. INTRODUCTION

Corporate Social Responsibility or CSR is defined as the duties that a company undertakes to ensure economic and social wellbeing. Companies in the financial sector, in particular, are responsible for building a sustainable and culturally diverse future for themselves and their direct stakeholders, as well as their communities. CSR initiatives are crucial for long-term success for any company in the financial sector, and publicising those initiatives adds a sense of accountability. As an example, Goldman Sachs aims for 50% of their global talent to be women. CSR is widely used among financial companies worldwide and is known to have a positive impact on brand image, and in attracting and retaining talent. Our paper explores the impact that these CSR activities can have on public brand image. Through a mix of primary and secondary research, we aim to enforce the idea that financial companies can use CSR to address challenges.

II. REVIEW OF LITERATURE

Florian Habermann and Felix Bernhard Fischer (2021) explore how increasing a firm's corporate social performance (CSP) during economic upswing leads to a rise in bankruptcy likelihood. Their findings suggest that the positive effects of CSP on stakeholder relationships do not materialize in flourishing business environments, making the costs of increasing CSP exceed its benefits. Guangfan Sun, Changwei Guo, Bin Li, and Honglei Li (2023) investigate whether cultural inclusivity influences corporate social responsibility (CSR). Their research reveals that firms in regions with higher cultural inclusivity tend to take on more social responsibilities, linking corporate humanistic care and environmental awareness to cultural factors. Weiwei Wu, Jian Shi, and Yexin Liu (2024) examine the role of CSR in technological innovation and how it enhances firms' sustainable competitive performance.

Mª Celia López-Penabad, José Manuel Maside-Sanfiz, Yousif Agha, and Ana Iglesias-Casal (2024) study the integration of CSR within Microfinance Institutions (MFIs) in relation to Sustainable Development Goals. Their systematic literature review identifies seven thematic clusters that define the CSR paradigm in MFIs, including balanced social and financial goals, environmental sustainability, and funding techniques. Michael Overesch and Sina Willkomm (2024) find evidence that CSR is adversely related to profit shifting within European and U.S. multinational firms, with fewer profit-shifting behaviors in firms that perform well in social or corporate governance dimensions.

Yuan Chang, Kun-Tsung Wu, Shu-Hui Lin, and Chia-Jung Lin (2024) explore the impact of increasing female directors on corporate decision-making, finding that gender diversity leads to more stakeholder-friendly policies. Hsiao-Fen Hsiao, Tingyong Zhong, and Jun Wang (2024) introduce national culture as a moderating factor in CSR's impact on firm performance. Jing-jing Yao, Yi-ang Qi, and Bing Guo (2022) analyze how CSR influences debt financing costs and enterprise innovation, showing its role in enhancing firms' access to debt financing.

Han-Hsing Lee, Woan-lih Liang, Quynh-Nhu Tran, and Quang-Thai Truong (2024) study whether older board directors promote CSR engagement. Shu-Chen Hsu, Kun-Tsung Wu, Qing Wang, and Yuan Chang (2023) examine the relationship between a firm's capital structure and CSR performance using data from Taiwan's stock exchanges.

Li Xia, Zhi Li, Jiuchang Wei, and Shuo Gao (2023) investigate the relationship between CSR and corporate financial performance (CFP), addressing gaps in previous research. Their findings suggest that different CSR activities affect financial performance differently across industries and regions. Nicolas Scelles, Yuhei Inoue, Seth Joseph Perkin, and Maurizio Valenti (2024) evaluate the social return on investment (SROI) of CSR initiatives in disability sports, finding an SROI ratio of 3.39:1 for every £1 invested. Jordan Famularo (2023) examines how digitalization challenges CSR in the ICT sector, particularly in cybersecurity and data governance.

Mohammad Yousefian, Marc Bascompta, Lluís Sanmiquel, Carla Vintró, and Nor Sidki-Rius (2024) investigate the impact of CSR on Total Factor Productivity (TFP) in the European mining industry. Using data from 40 mining companies between 2018 and 2021, they employ Data Envelopment Analysis (DEA) and panel regression techniques, finding a positive relationship between CSR initiatives and productivity, especially in areas like transparency, health and safety, training, and resource management. Matthew Lesch, Su Golder, and Jim McCambridge (2024) explore how alcohol industry actors use social media to influence policy debates, questioning whether industry-driven narratives shape public health policies more than scientific evidence. Shwu-Ing Wu and Wen-Hsuan Wang (2014) analyze Starbucks as a case study to explore how different generations perceive CSR and its influence on their future purchasing behavior.

Jintao Lu, Licheng Ren, Chong Zhang, Chunyan Wang, Zahra Shahid, and Justas Streimikis (2020) investigate the impact of CSR initiatives on brand loyalty and brand image, emphasizing how socially responsible activities strengthen customer relationships and brand perception. Kumar Ramesh, Raiswa Saha, Susoban Goswami, Sekar, and Richa Dahiya (2018) examine consumer responses to CSR, focusing on the mediating roles of brand image and brand attitude in shaping customer perceptions. Gautam Srivastava (2019) explores how CSR enhances a company's reputation and brand image, emphasizing its role in public perception and corporate identity.

CX Phan, LV Le, D Duong, and TC Phan (2021) analyze the influence of CSR on brand image in Vietnam, showing that CSR initiatives contribute to stronger brand equity in emerging markets. H Lho, J Park, and J Yu (2019) examine CSR's impact on brand prestige and consumer behavioral intentions in the tourism and hospitality industry. Paolo Popoli (2011) compares local and global CSR strategies, analyzing how different approaches affect brand perception. Patricia Martínez, Andrea Pérez, and Ignacio Rodríguez del Bosque (2014) explore CSR's influence on hotel brand image and customer loyalty, demonstrating that socially responsible initiatives positively impact consumer perceptions and repeat patronage. Abd-El-Salam, Eman Mohamed (2020) studies how CSR fosters customer loyalty by building trust and enhancing brand image. SJ Cho, CY Chung, and J Young (2019) analyze whether CSR initiatives lead to improved financial performance, finding evidence that socially responsible firms tend to achieve better economic outcomes.

L Das and A Bhunia (2016) provide a comprehensive review of the relationship between CSR and firms' financial performance, assessing various studies to determine whether socially responsible practices translate into profitability. Abagail McWilliams and Donald Siegel (2000) critically examine prior research on CSR and financial performance, questioning whether observed positive correlations result from omitted variables or model misspecifications. MM Cornett, O Erhemjamts, and H Tehranian (2014) analyze CSR's impact on U.S. commercial banks, exploring whether banks engaging in social responsibility initiatives experience improved financial outcomes. Arturo Lorenzo-Valdés, G. Einar Moreno-Quezada, and Rocío Durán-Vázquez (2012) investigate how CSR and innovation affect the financial performance of companies in Mexico, assessing their contributions to profitability and competitive advantage. Grizel Menezes (2019) examines the correlation between CSR spending and a firm's financial performance, determining whether increased CSR investments lead to better financial outcomes.

III. RESEARCH METHODOLOGY

The research methodology incorporated both qualitative and quantitative approaches to assess the financial effects of Corporate Social Responsibility (CSR) activities on businesses. This study was structured around two primary components: an in-depth literature review and an empirical investigation that involved conducting a survey and utilizing data mining techniques. By integrating these methods, the research aimed to provide a comprehensive understanding of how CSR influences corporate performance, particularly from the perspectives of stakeholders, business owners, and investors.

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The literature review served as a theoretical framework by examining existing studies on CSR and its impact on corporate success. It emphasized the alignment of CSR initiatives with business objectives and stakeholder expectations, positioning companies as socially responsible organizations. Additionally, it explored how CSR can serve as a competitive advantage, enhancing brand reputation and fostering customer loyalty. The review also highlighted how CSR contributes to corporate legitimacy, reducing regulatory pressures while improving public trust. Moreover, existing research suggests that companies with strong CSR credentials often experience increased stock market performance, particularly in industries where consumers prioritize social and environmental responsibility. The literature review was based on credible sources such as peer-reviewed journal articles, industry reports, white papers, and financial case studies, ensuring a well-rounded analysis of the topic.

To complement the literature review, an empirical study was conducted through a structured survey to collect primary data. This survey targeted corporate professionals, business owners, and investors to evaluate their perceptions of CSR's financial impact. The study aimed to understand respondents' views on CSR activities, explore the psychological link between CSR and profit maximization, and determine whether investors make decisions based on a company's CSR initiatives.

IV. SURVEY DESIGN

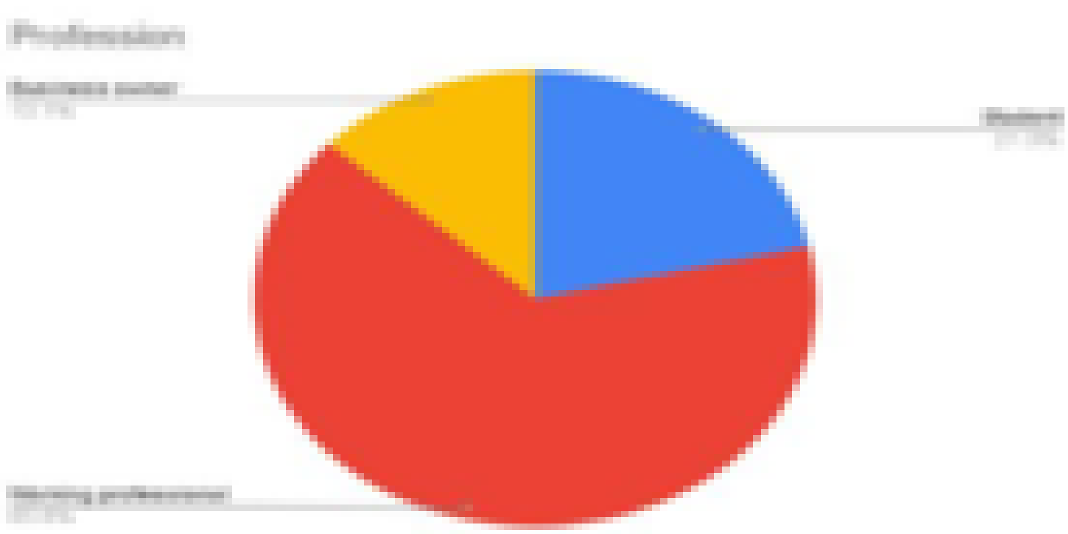
The survey was divided into three key sections. The first section gathered demographic details, such as job titles, occupations, and income levels, to provide context for data interpretation. The second section focused on respondents' awareness and perceptions of CSR, inquiring about their familiarity with CSR activities and how they learned about them. The final section examined the relationship between CSR and financial performance, including its effects on profitability, customer retention, customer attraction, and shareholder trust. Additionally, respondents were asked about the likelihood of investors favoring companies with strong CSR initiatives. The majority of the questions were closed-ended and used a five-point Likert scale (ranging from Strongly Disagree to Strongly Agree) to ensure measurable and structured responses.

V. DATA COLLECTION

Data collection was conducted electronically through Google Forms, allowing for efficient and widespread participation. The study aimed to gather responses from approximately 250-300 professionals, primarily from the finance and AI sectors, ensuring that the sample was relevant and aligned with the research objectives.

VI. DATA ANALYSIS

For data analysis, both computational and manual methods were used to interpret the collected information. Descriptive statistical techniques were applied to categorize and summarize responses, identifying key trends and common viewpoints. Inferential statistical analysis was also performed to assess relationships between different variables, providing deeper insights into CSR's financial benefits. Additionally, AI tools commonly used in the financial sector were employed to enhance data analysis accuracy and efficiency, ensuring a thorough evaluation of CSR's role in corporate financial performance.



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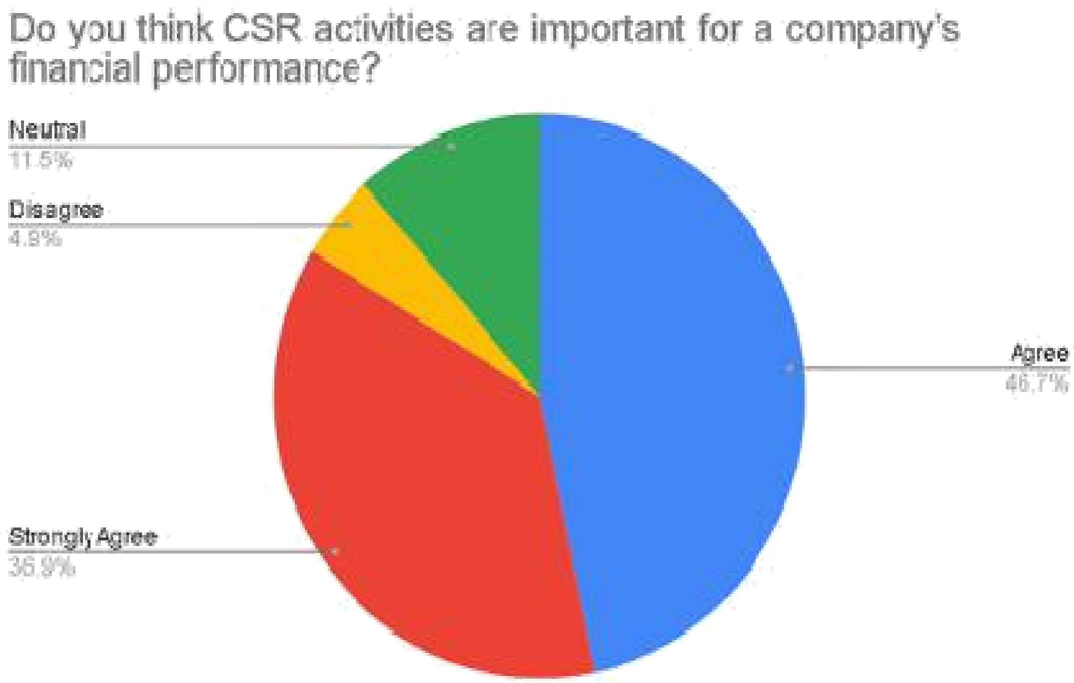
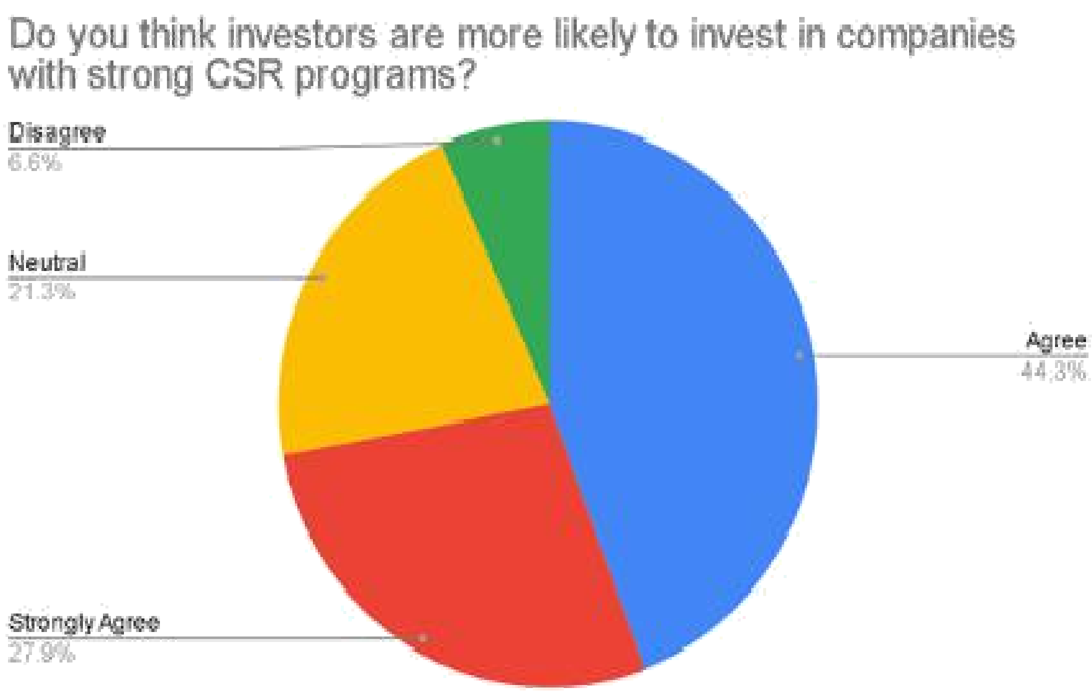




VII. THE STUDY'S LIMITATIONS

Notwithstanding the study's sound methodology, several drawbacks were noted:

1) Self-Reported Bias: Subjective bias could be introduced because responses were based on self-reported perceptions.
2) Limitations on Sample Size: The study only included 250–300 participants, which limited its ability to be broadly applied.
3) Macroeconomic Factors: The study does not take into consideration market anomalies, regulatory restrictions, or external macroeconomic conditions that could have an impact on the performance of the company.

VIII. FURTHER SCOPE OF RESEARCH

The research can also delve into the financial benefits of CSR on performance, for a quantitative outlook.

1) It can explore the cultural and societal impact of these activities through surveys of some target groups.
2) Research can be done on the CSR activities of companies in the non-financial sectors, and a comparison can be drawn between the effect and overall impact.
3) Within this research, open-ended questions can offer a deeper insight into customers' opinions on CSR activities.
4) Increasing the sample size can broaden the outlook and give a more specific and diverse response.

IX. DATA FINDINGS AND SUGGESTIONS

There was a sample size of 122 people. From this, we found the following:

CSR activities improve brand reputation and customer loyalty, as customers are more likely to support brands that align with their values, moreover, ethical, and sustainable companies often attract ESG (Environmental, Social, Governance) investors. As per the data collected, through the questionnaire, around 50% of respondents agree or strongly agree that CSR activities have a positive impact on a company's financial performance, however, about 27% remain neutral, indicating a need for better awareness or more tangible evidence. A moderately positive correlation exists between "CSR importance for financial performance' and investors preferring companies with strong CSR programs', suggesting that investors value CSR initiatives when making financial decisions.

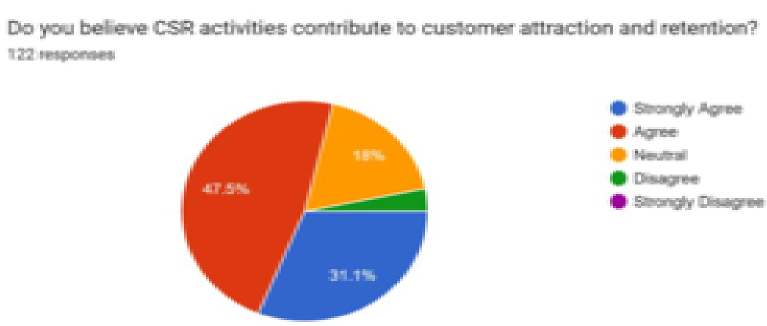
A moderately low correlation (0.16) is seen between "CSR contributing to customer attraction" and "purchasing decisions based on CSR". This implies that while people believe CSR attracts customers, it does not influence their purchasing decisions.

Responses linked to the idea of CSR providing a competitive edge are mixed, some strongly agree, where other remain neutral, this is further backed by a correlation of (0.28) suggesting that other factors may play a crucial role.

As per the above findings, the following is suggested:

Companies should provide more measurable outcomes to demonstrate CSR's direct financial benefits, especially to neutral respondents.

1) Firms should highlight the CSR activities in investor presentations and annual report to attract socially responsible investors who prioritize ethical business practices.
2) Companies should increase marketing efforts around CSR to build a stronger consumer purchase intent, making CSR more than just an attraction factor, helping in retaining customers and influencing their purchase decisions.
3) Firms should tie CSR initiatives to brand identity and USP's, ensuring CSR is perceived as a strategic advantage rather than just compliance.



X. CONCLUSION

In conclusion, financial companies have a significant impact on public image. Though our sample size was limited, we were able to enforce the point that among a certain group of people from diversified ages and sectors, the general opinion was that CSR activities are beneficial in building public approval and helping society. Moreover, a majority of the group believe that it aids financial performance as well.

Overall, the general belief is that the CSR activities of financial companies, and companies within that sector, are taken positively by the public.

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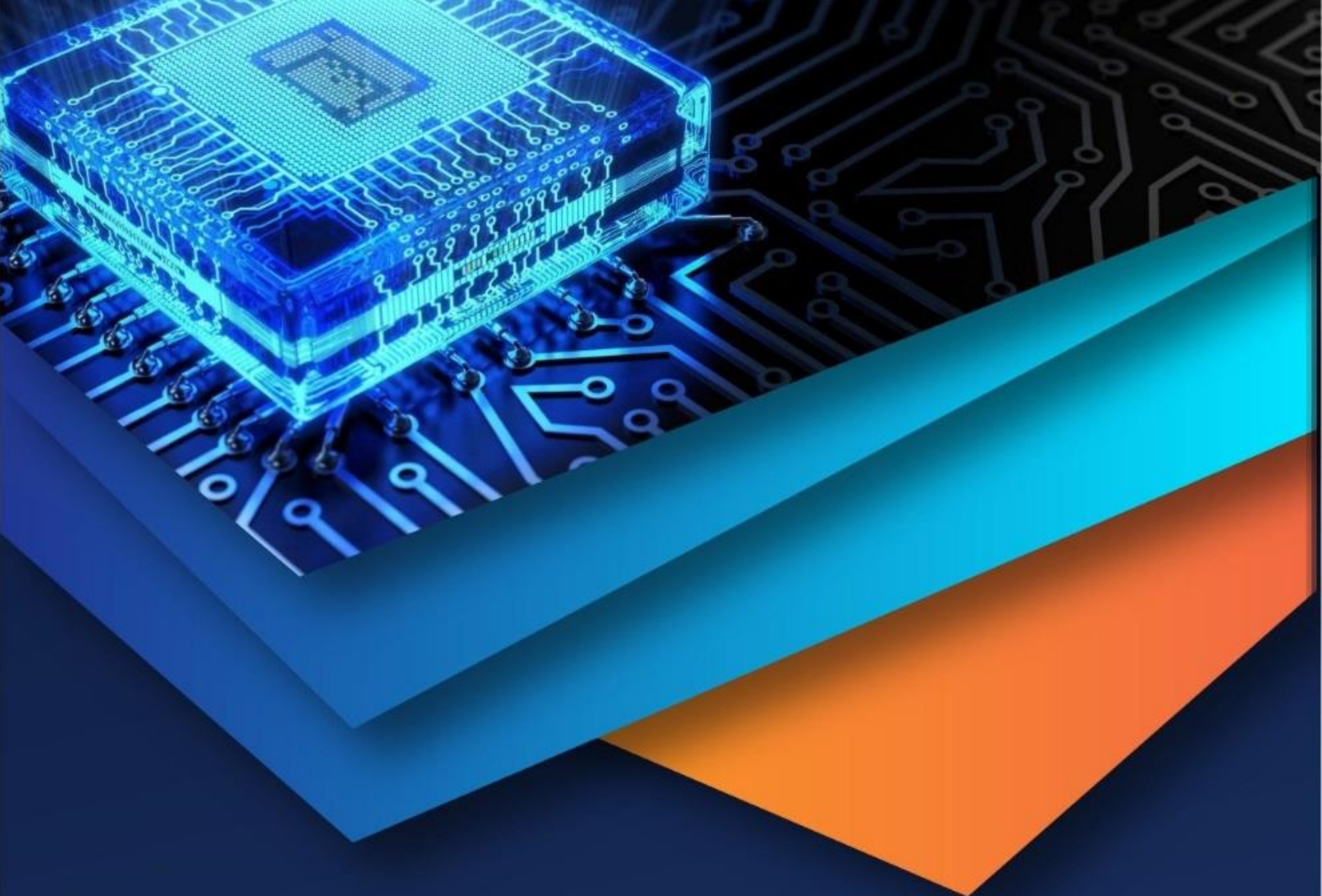

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