IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FIRM’S FINANCIAL PERFORMANCE

SAHAR KHAN
Student, Jinnah University for Women

ABSTRACT:

The reason to conduct this research is to find out the relationship between corporate social responsibility and firm financial performance in the area of Karachi. Moreover, the field of CSR has growing faster in the several years. An increasing number of shareholder, analysts, regulators, employees, community organizations, and news media are asking companies to be accountable for an ever-changing set of CSR issues. There is an increasing demand for knowing that corporations are continuously improves their social, environmental, and economic performance. Moreover, I find that firm with higher corporate social responsibility receives a more favorable response regarding their profits, market value, company profile, and community welfare. In this study, I use quantitative method to test the results. The results indicates that there is a positive relation between corporate social responsibility and firm financial performance, and statistically significant, supporting the view that if companies conduct CSR events directly link to the how company is socially, legally, environmentally responsible. This is important factor to compete in a global world.

PROBLEM STATEMENT:

The problem statement of this research to identify the impact of corporate social responsibility (CSR) on firm financial performance in the area of Karachi. Moreover, the field of corporate social responsibility has growing faster in the last several years. Now a day’s larger number of companies is engaged in a serious effort to define and integrate CSR into all aspects of their businesses. An increasing number of shareholders, analysts, regulators, labor unions, employees, community organizations, and news media are asking companies to be accountable for an ever-changing set of CSR issues. There is an increasing demand for knowing that corporations are continuously improves their social, environmental, and economic performance.

The definition of corporate social responsibility is not abstruse. According to Business for Social Responsibility (BSR), corporate social responsibility is defined as “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment.” The definition of CSR is obligation of organization management to make decisions and take actions that will enhance the welfare and interest of society as well as the organization.

RESEARCH QUESTION:

In this research I find out that there is any relation between CSR and firm financial performance with various perspectives, companies are now more focus on how their corporate social responsibility strategy is aligned with its company corporate objectives and core competencies, for successful implementation of corporate social responsibility.

It is crucial that the corporate social responsibility principal and are part of corporations value and strategic planning. And I also find out how their
corporate social responsibility event impact on their company profile and there is any relation between company market value and corporate social responsibility and also find out how the companies are socially, legally responsible, And I’m trying to find that if the companies are satisfy all the requirements of the their customer, stake holder, creditors and employees there is any impacts on its profit or not. Each company differs in how its implement corporate social responsibility. The difference depends on such factors such as the particular industry involved, the firm business culture, stakeholder demands and how historically progressive the company is in engaging CSR.

SIGNIFICANCE OF THE STUDY:

CSR as an important corporate duty given the significance of corporate social responsibility in corporate decision making firm may actually benefited from socially responsible actions in terms of employee morale and productivity. Corporate social responsibility is viewed, as a comprehensive set of policies, practices and program that are integrated into business operations, supply chains and decision making process throughout the company and usually include issue related to business ethics, community investments, environmental concerns, governance, human rights, the marketplace as well as the workplace. This study will explain that how CSR is important now days as many companies thinks that there is no need to adopt CSR as is waste of money as their main objective to earn revenue.

OBJECTIVE OF STUDY:

- The aim is to identify that there is any relation between corporate social responsibility and firm financial performance.
- The objective is to measure corporate social responsibility and financial performance of any company who adopt CSR and what impact of CSR on financial performance of company.
- And companies are conducting CSR events or not and these events are put some impacts on profits of the companies.
- There is any relation between market value and corporate social responsibility.

LITERATURE REVIEW:

(1. Abagail McWilliams, May 2000) Corporate social responsibility and financial performance: correlation or misspecification? The problem discussed in this article is that the inconsistency and flawed empirical analysis cannot determine the exact relationship between CSR and financial performance. In methodology they use regression and take investment as an important factor of firm performance; they find that if the model is accurately specified they have a neutral impact on financial performance. In future implication companies should emphasize on the control of the investment in R&D which is a important variable that put a directly impact on the CSR and firm financial performance.

(Karen L. Becker-Olsen, January 2006) The impact of perceived corporate social responsibility on consumer behavior: The purpose of this article is to provide a practical view how response of consumer behavior is inconsistent because their behavior is highly influence by the initiative taking by the CSR. They find that if they give low fit initiatives put negative impact on consumer beliefs, attitudes and intentions no matter how there company motivate them but on the other hand if they give high–fit their motivation, beliefs and attitudes are become in the profit maximization, In the future implication company should try to give proactive initiative lead to an improvement in consumer attitudes and intentions.
(Clyde Eirikur Hull, July 2008) Firm performance: the interactions of corporate social performance with innovation and industry differentiation: The aim of this article to discussed the problem if the companies go for differentiate and innovation then CSR enhance firm financial performance. By using secondary data they find the results that at highest level of innovation and differentiation in the industry put positive relationship between corporate social performance and financial performance and with low innovation affect the CSR. In the future companies try to go for more innovation and diversification.

(Ho-Li Yang, February 2009) The impact of corporate social responsibility on financial performance: Evidence from business in Taiwan: This research indicates that the previous researches find that flawed regressing analyses financial performance on CSR and taking wrong variables, as previous studies did not recognize the investment in R&D put a positive or negative impact on CSR which give a biased results of financial impact on CSR. In methodology they use regression analyses and taking 1000 Taiwanese cases between 2002 and 2004 and find that as firms include their R&D expenditure as one of the business strategy and give charitable contribution to CSR give positive relationship between CSR and financial performance. In the future companies focus on long-term financial performance rather than shot-term.

(Eveline Van de Velde, 2005) Corporate social responsibility and financial performance: In this article we find that The results indicate that, on a style-adjusted basis, high sustainability-rated portfolios have performed better than low-rated portfolios. The results also indicate that investors are ready to pay a premium for companies with good management of their relations with shareholders, clients and suppliers. Practical implications – There is no cost involved in integrating sustainable dimensions in the investment policy.

(Bhattacharya, October 2006) Corporate Social Responsibility, Customer Satisfaction, and Market Value: In this article the problem arises is that research identify the influence of CSR on perceived customer responses is not clear whether CSR affects its market value, by using large scale secondary data they find that customer satisfaction goes to the relationship CSR and firm market value, then corporate abilities like innovation and product quality leads to the financial returns to CSR and these relationship leads to a customer satisfaction and with low innovation reduces customer satisfaction which also low the market value. In the future companies focus on customer satisfaction by providing them good product quality and invest in innovations to increase the firm market value.

(Kohers, 2002) The Link between Corporate Social and Financial Performance: Evidence from the Banking Industry: In this article the problem discussed is to extend the previous studies that there is any relation between corporate social responsibility and financial performance. In methodology they use empirical study and sample size taking companies from banking sector and the results show that there is a positive relation between CSR and financial performance. In the future manager try to focus on to take the other country banks and study it that there is any relation between CSR and financial performance.

(Krausz, 1996) The association between corporate social-responsibility and financial performance: The paradox of social cost: In this article the problem is that the investor should not willing to pay any premium or any incentives for corporate behavior because they earn the highest future cash flow for a given amount of risk. But after the awareness of CSR they find that 538 institutional investor
allocate their funds using social screens. In the according to Alice Tepper Martin, president of the Newyork council on Economic Priorities estimate that about 600$ billion invest funds in socially screened (1992).

(www.youtube.com, 2008) In this video the problem is discussed is that is to emphasize the companies to view CSR as a growth opportunity not just a regulatory compliance According to IBM study describe that now companies adding CSR to attaining sustainable growth and uses as a business strategy that can yield financial benefits. The sample size they take is more than 250 companies worldwide. In the future these findings emphasize that the companies view these steps to gain competitive advantage and access to new business opportunity and increased awareness among consumers on what buy, whom to buy and where to invest.

(Jean B. McGuire, Dec 1988) Corporate Social Responsibility and Firm Financial Performance: The problem in the article is that measure of risk are also more closely related with social responsibility and financial performance ,we find that prior firms performance assessed the both stock market returns and accounting base measure which is closely related to each other ,the sample size is taking from Fortune magazine .In methodology they use correlation and implication of this finding in he future is that company analyze the relation between stock market and consumer behavior on firm performance.

(Kyung Ho Kanga, March 2010)Impacts of positive and negative corporate social responsibility activities on company performance in the hospitality industry: The problem discussed in this article is that different industries have different impact of CSR on financial performance where as in many industries the financial performance factors areas yet unconsidered which make result mixed with positive and negative impact of CSR on firm financial performance. We find that use different appropriate strategic decision making for CSR activities with more precise information leads to the different impact of CSR on financial performance across different industries.

(Rubin, 2010) Corporate Social Responsibility as a Conflict between Shareholders: The problem discussed in this article is to investigate the relation between firm CSR rating and their ownership and capital structure. The sample size they take is us largest 3000 corporation an in methodology they use correlation .We find that on average firm insiders ownership and leverage are negatively correlated to the firm social rating and on the other hand institutional ownership is uncorrelated with it .In the future companies try to increased their amount of resources allocated to activities classified as CSR.

(• Stelios C. Zyglidopoulosa, Online available ,Octo 2011)Does media attention drive corporate social responsibility? : The problem discussed in this article is media attention can have on the CSR strength and weakness of a particular firm .we find that if there is increase in media attention there is increase in CSR strength while on the other hand CSR weakness are not sensitive to changes in media attention.

(Fu-Ju Yang, April 2010)The problem statement in this article is that previous empirical studies have indicated as unclear relationship between CSR and financial performance as they take corporate social performance and corporate financial performance as a variable while Taiwanese companies contributing to the community with specific actions to publicize their CSR related activities .The sample they select is companies listed in the TSEC Taiwan 50 and TSEC Taiwan Mid-Cap 100 index and use regression analysis in the methodology .we find that CSP has positive impact on ROA and negative impact on ROE in the financial industry .So in the future companies try to focus
on increase their ROA ratio rather than ROE.

(A Alison Mackey1, July 2007) The problem arise in this article is that when the firms behave socially and proposing a theoretical model with supply and demand for socially responsible investment opportunities there is any impact on a firm market value. We find that publicly traded firms put funds in socially responsible activities have not increase the present value of the firm's future cash flow but increase the market value of the firm.

METHODOLOGY/METHODS:

1. This part of research provide a outlook of activities that has taken to conduct this research and how these steps are proceed and complete the research. This is a exploratory research as we have not much information of this topic so I gathered information from various resources and techniques in order to get authentic data. The technique I use quantitative technique in which we formulate a close ended questionnaire which is in numerical form and easily measured and it can be put in categories or in ranked form like (e.g. yes or no, agree or disagree) there are some question were I asked in my research 1) Do you adopt corporate social responsibility? 2) This company strictly obeys the rules of ethical values and morals? 3) Do you think when you will be more ethically responsible, your revenue will increase? 4) Do you think there is any relation between CSR and financial performance of the company? 5) Does your company donate for charity purposes or campaign?

STATISTICAL TECHNIQUES USED:

The statistical technique I used in this research is correlation and regression method, in this technique I find a relationship between independent and dependent variable and form a relationship between one dependent and one or more independent variable. Through the linear equation we analyze the results of the study.

Linear model \( y = b_0 + b_1 \times x_1 + b_2 \times x_2 + \ldots + b_p \times x_p + u \)

Main situation: CSR and Firm financial performance

VARIABLE:
Dependent variable \( y \) and the independent variables \( x_i \)

\( Y = \text{Financial performance (Profits)} \)
\( X_1 = \text{CSR} \)
\( X_2 = \text{Ethically responsible} \)

HYPOTHESIS:

1. \( H_0: \) There is no positive relationship between CSR and firm financial performance.
   \( H_A: \) There is a positive relationship between CSR and firm financial performance.

2. \( H_0: \) Profit is increased when firm perform ethically.
   \( H_A: \) Profit is not increased when firm perform ethically.

3. \( H_0: \) When firm adopt CSR there is an impact of financial performance of the firm.
   \( H_A: \) When firm adopt CSR there is no impact of financial performance of the firm.

4. \( H_0: \) Firm market value is increase when firm adopt CSR.
   \( H_A: \) Firm market value is not increase when firm adopt CSR.

5. \( H_0: \) Increase in the CSR event (charity purpose or campaign) would automatically increase the value of company in the eyes of shareholder, customer, creditors and employees.
   \( H_A: \) Increase in the CSR event (charity purpose or campaign) would not automatically increase the value of company in the eyes of shareholder, customer, creditors and employees.

6. \( H_0: \) There is any increase in profits if companies satisfy all demands of the customer employee and shareholder.
HA: There is no increase in profits if companies satisfy all demands of the customer employee and shareholder.

DATA:

In this research primary data are collected as this research is conduct first time in Karachi so I look research conducted related to my topics. As this is a direct source to gather data that give me an idea how others factors are focused in this research. In secondary data we used other sources to collect data that is internet, many published journals, articles were are easily available.

DATA COLLECTION TECHNIQUE:

The technique which is used for data collection is:
Questionnaire:
Questionnaire is given to different companies who adopt CSR
Structured questions are asked and their answer are collect analyze the results

OBSERVATION:

Companies were asked questions are randomly selected and there answer and suggestion are highly observed and general questions are asked that companies adopt CSR and perform socially.

DATA SOURCE:

Data has been collected from various websites and sources. Whereas most of the data is collected through questionnaire. Hardcopies were distributed to some people and Softcopy was spread to many people as well. Their responses were stored and then analyzed. The main source of data here was Questionnaire. Social network site, email and Google document applications were used to gather data.

PRESENTATION OF DATA:

SAMPLING AND SELECTION:

In sampling we choose those companies who adopt CSR the well-known companies within Karachi. The sample size is approx 15 companies the method of data collection is (questionnaire) to further elaborate the findings and the method of data analysis we use SPSS. Many negative and no response were obtained.

DATA COLLECTION:

According to the eligibility criteria questionnaire were sent randomly via internet. The amounts of questionnaire delivered and received are listed below:

<table>
<thead>
<tr>
<th>DISTRIBUTION OF QUESTIONNAIRE:</th>
<th>QUESTIONNAIRE SENT</th>
<th>QUESTIONNAIRE RECEIVED</th>
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<td>Face book</td>
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<td>2</td>
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<tr>
<td>TOTAL</td>
<td>15</td>
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DATA INTERPRETATION:

HYPOTHESIS 1:

H0: There is no positive relationship between CSR and firm financial performance.

HA: There is positive relationship between CSR and firm financial performance.

Under this Hypothesis I take the Question No 11 and financial performance regarding profits

Question: Do you think there is any relation between CSR and financial performance of the company?

Variable
- Strongly Disagree
- Disagree
Neutral
Agree
Strongly Agree

Financial performance regarding profits:
Variable:

<table>
<thead>
<tr>
<th></th>
<th>Correlation Coefficients</th>
<th>Standard Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig</th>
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<tr>
<td>FINANCIALPERFORM</td>
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<td>DOYOUWATCHHEREISSAY</td>
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<td>0.293</td>
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<tr>
<td>N</td>
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<td>10</td>
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</table>

**Model 1:**

\[ Y = 0.120x + 0.880 \]

*Here coefficient was significant at 0.412 levels. And our correlation is 0.293.Clearly states Ho (Null Hypothesis) is reject and accept HA hypothesis that there is positive relationship between corporate social responsibility and firm financial performance. Moreover correlation is 0.293 which means there is positive relation between these two variables.

**HYPOTHESIS 2:**

H0: Profit is increased when firm perform ethically.

HA: Profit is not increased when firm perform ethically

Under this Hypothesis I take the Question No 6 and 7

Question No6: This Company strictly obeys the rules of ethical values and morals?

Q no 7: Do you think when you will be more ethically responsible, your revenue will increase?

Variable

**Model 2:**

\[ Y = 0.333x + 2.880 \]

*Here coefficient was significant at 0.153 levels. And our correlation is 0.488 .Clearly states Ho (Null Hypothesis) is accept and Profit is increased when firm perform ethically. Moreover correlation is 0.488 which means there is strong positive relation between these
two variables when companies obey the rules of ethical values and morals is directly linked to increase in the profits.

**HYPOTHESIS 3:**

H0: when firm adopt CSR there is an impact of financial performance of the firm.

HA: When firm adopt CSR there is no impact of financial performance of the firm.

Under this Hypothesis I take the Question No 3 and financial performance regarding profits

Question: Do you adopt corporate social responsibility?

**Variable**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

Financial performance regarding profits:

- Increase
- Decreases

**DATA ANALYSIS:**

**MODE MODEL 3:**

\[ Y = mx + b \]

\[ Y = 0.200x + 0.400 \]

*Here coefficient was significant at 0.545 levels. And our correlation is 0.218 .Clearly states Ho (Null Hypothesis) is reject and accept the HA: There is no impact of financial performance when firm adopt CSR. Many firms think if we adopt CSR there is direct impact on their profits

but this study reject this concept. Moreover correlation is 0.218 which means there is some positive relation between these two variables.

**HYPOTHESIS 4:**

H0: Firm market value is increase when firm adopt CSR.

HA: Firm market value is not increase when firm adopt CSR.

Under this Hypothesis I take the Question No 3 and financial performance regarding earning ratio

Question: Do you adopt corporate social responsibility?

**Variable**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

Financial performance regarding earnings ratio:

**Variable:**

1) Increase
2) Decreases

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
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<th>Sig.</th>
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<td>.632</td>
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*Correlation is significant at the 0.05 level (2-tailed).

**Coefficients**

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<th>Standardized Coefficients</th>
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<th>Sig.</th>
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<tbody>
<tr>
<td>(Constant)</td>
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<td>.243</td>
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<td>555</td>
<td>2.440</td>
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*Correlation is significant at the 0.05 level (2-tailed).
DATA ANALYSIS:

MODEMODEL 4:

\[ Y = mx + b \]
\[ Y = -1.400 + 0.600x \]

*Here coefficient was significant at 0.040 levels. And our level is 0.655. Clearly states Ho (Null Hypothesis) is accept that Firm market value is increase when firm adopt CSR. Moreover correlation is 0.655 which means there is strong positive relation between these two variables. Customer satisfaction goes to the relationship CSR and firm market value, then corporate abilities like innovation and product quality leads to the financial returns to CSR and these relationship leads to a customer satisfaction, with high innovation increase customer satisfaction which also increase the market value. In the future companies focus on customer satisfaction by providing them good product quality and invest in innovations.

HYPOTHESIS 5:

H0: Increase in the CSR event (charity purpose or campaign) would automatically increase the value of company in the eyes of shareholder, customer, creditors and employees.

HA: Increase in the CSR event (charity purpose or campaign) would not automatically increase the value of company in the eyes of shareholder, customer, creditors and employees.

Under this Hypothesis I take the Question No 14 and 19

Question No14: Does your company donate for charity purposes or campaign?

Variable
- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

Q no 7: Do Your Company conducts event regarding corporate social responsibility after?

Variable
- 3 months
- 6 months
- 12 months
- 24 months

<table>
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</tr>
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| DOYOUBLIEVETHATAFTERSPONSORANEVENTORGIVECHARITYFORANYPURPOSEINCREASETHEVALUEOFTHECOMPANYINTHEEYESOFTHECUSTOMER, SHAREHOLDER, CREDITORSANDEMPLOYEES? | DOESYOURCOMPANYDONATEFORCHARITYPURPOSES | Pearson Correlation |
| 1 | .408 |
| 1 | 242 |

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*Dependent Variable: DOYOUBLIEVETHATAFTERSPONSORANEVENTORGIVECHARITYFORANYPURPOSEINCREASETHEVALUEOFTHECOMPANYINTHEEYESOFTHECUSTOMER, SHAREHOLDER, CREDITORSANDEMPLOYEES?*

DATA ANALYSIS:

MODEMODEL 5:

\[ Y = mx + b \]
\[ Y = 0.333x + 3.333 \]

*Here coefficient was significant at 0.242(2 tailed) levels. And our correlation is 0.408. Clearly states Ho (Null Hypothesis) is accept Increase in the CSR event (charity purpose or campaign) would automatically increase the value of company in the eyes of shareholder, customer, creditors and employees. When companies conduct CSR event they increase the company profile as present themselves as they are more responsible firm regarding socially,
ethically, legally and environmentally. Moreover correlation is 0.408 which means there is positive relation between these two variables.

**HYPOTHESIS 6:**

H0: There is any increase in profits if companies satisfy all demands of the customer employee and shareholder.

HA: There is no increase in profits if companies satisfy all demands of the customer employee and shareholder

Under this Hypothesis I take the Question No 15 and financial performance regarding profit

Question: If your company satisfies all the demands of the customer, stakeholder, creditors and employees they give positive response regarding your profits?

Variable

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

Financial performance regarding profit:

Variable:

1) Increase
2) Decrease

*Here coefficient was significant at 0.286 levels.

And our correlation is 0.375. Clearly states Ho (Null Hypothesis) is accept. There is increase in profits if companies satisfy all demands of the customer employee and shareholder. When companies satisfy all the demands customer employee and shareholder they trusted on them put their part in increase in profits. Moreover correlation is 0.375 which means there is positive relation between these two variables.

**CONCLUSION:**

Through this research I get to know various aspects that put impact on corporate social responsibility, there are different views of the role of a firm in society and disagreement as to whether wealth maximization should be the sole goal of a corporation, the view that firms which have solid financial performance have more resources available to invest in social performance such as employee relation, environmental concerns or community relation. Nevertheless the findings indicate that corporate social responsibility is positively related to financial performance, supporting the view that socially, ethically responsible can be associated with a series of bottom line benefits.

**DATA ANALYSIS:**

**MODEMODEL 6:**

\[ Y = mx + b \]
\[ Y = 0.268x + 0.146 \]

**CONCLUSION:**

Corporate social responsibility as an important corporate duty of every company the significance of the corporate socially responsibility is in
corporate decision making. Firms may actually benefited from socially responsible actions in terms of employee morale and productivity, The relationship between firms social and ethical policies or actions and its financial performance is an also a important factor.

Customer satisfaction goes to the relationship CSR and firm market value, then corporate abilities like innovation and product quality leads to the financial returns to CSR and these relationship leads to a customer satisfaction, with high innovation increase customer satisfaction which also increase the market value. In the future companies focus on customer satisfaction by providing them good product quality and invest in innovations.

That now companies adding CSR to attaining sustainable growth and uses as a business strategy that can yield financial benefits. In the future these findings emphasize that the companies view these steps to gain competitive advantage and access to new business opportunity and increased awareness among consumers on what buy, whom to buy and where to invest.

From this research I conclude that with higher corporate social responsibility directly link to the company profits, market value and community relations and there is positive relation between corporate social responsibility and firm financial performance Moreover CSR are integrated into business operations, supply chains and decision making process throughout the company and usually include issue related to business ethics, community investments, environmental concerns, human rights the market place as well as the workplace.

Through this research it proves that there is positive relation between firm financial performance and corporate social responsibility and it’s statistically significant.

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http://responsiblebusiness.haas.berkeley.edu/documents/FinalPaperonCSR_PDFII.pdf