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The Relationship between Corporate Social Responsibility and Financial Performance of Companies in South Africa

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ABSTRACT

In recent times, there has been a significant increase in the level of interest in corporate social responsibility (CSR) amongst regulators, legislators, shareholders and broader stakeholder groups. The major driving force behind this heightened interest seems to be mounting concerns regarding global warming, the widespread adoption of the Kyoto protocol, numerous large scale corporate collapses and corruption cases. In South Africa, CSR has an additional impetus given the complex nature of the country's history, the need to adhere to the Broad-Based Black Economic Empowerment's (B-BBEE) Codes of Good Practice and the ethical values of responsibility as espoused by the King Code.

This research sought to define the relationship between firms' corporate social responsibility and their financial performance. Although most literature reviewed suggest that investment in CSR is associated with superior financial performance, many other studies found contrasting results or no relationship at all. Findings are therefore both mixed and inconclusive. By addressing the methodological shortcomings identified in previous studies, this research sought to provide an improved perspective into the nature of this relationship.

Companies that met the JSE's (Socially Responsible Investment) SRI Index for assessment were used to conduct this research. These companies were identified and separated into leading and lagging Corporate Social Performance (CSP) firms based on their environmental responsibility profile and their performance data for five years drawn and analysed. The sample was also sorted and analysis conducted in different industrial sectors so as to eliminate industry biases.

No significant difference in the financial performance was found between leading and lagging CSP firms over the five-year period. The findings were consistent regardless of the measure of performance employed, period of analysis or the sector to which the firms operate. The findings indicate that there is neither a detrimental impact nor financial rewards for engaging or not engaging in CSR activities. Managers and investors can therefore afford to be socially responsible.