Corporate Social Responsibility's Impact on Profit: A Case Study of the United Kingdom's Banking Industry

Name:

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Literature Review

Introduction

This chapter seeks to provide an in-depth review of the extant literature on the impact of corporate social responsibility on a company's profitability. In particular, the section provides brief background information about corporate social responsibility and subsequently proceeds to examine its relationship with profitability. The aim of the literature is to help the researcher identify research gaps that are in this area of study. The identified gaps will form a sound basis for the research design given the researcher will avoid pitfalls that previous studies have suffered. However, it is also an opportunity to acknowledge the strengths in past studies and understand ways to internalise them in the intended study.

Background Information and Analysis of Corporate Social Responsibility

Corporate social responsibility (CSR) is not a new feature to the business community. Crowther and Aras (2008:11) define CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and their interactions with their stakeholders on a voluntary basis". The definition is adapted from a report released by the European Commission in 2002. The highlighted definition creates an impression of a company that is focused not only on profitability but also the welfare of other stakeholders. Besides, the definition denotes that an organisation's participation in CSR activities is of its volition. Companies have, however, expressed concerns if such activities contribute to their business performance in the long run in what can be termed as a relational effect. In concurrence, Tran (2015) views CSR as a process that is programmed to improve the welfare of various stakeholders. Nevertheless, Tran (2015) is quick to observe that scholars can only offer definitions that can help business to structure their CSR activities. The remark implies that CSR definitions can only act as headlights to organisations, but firms have the full responsibility to contextualise them to suit their history, product and operations.

The need to contextualise CSR definitions allows business come with well-modelled programs that are not counterproductive to their operations. For instance, small and medium enterprise (SME) may not structure their CSR activities like a multinational corporation (MNC). Tran (2012) observes that firms face a different set of internal or external expectations and constraints. Therefore, it is illogical to expect different business to structure their CSR activities in a similar manner. Companies are likely to undertake CSR activities that focus on their target markets allowing them to gain enhanced reputation, visibility and possibly improved profitability. From the analysis, it is evident that CSR is not a simplistic concept but requires an in-depth focus and analysis.

The relationship between CSR and Profitability

There is a growing interest from the business community on the significance of their CSR engagement on profitability. Rangan, Chase and Karim (2015) provide that whereas companies have in the past engaged in CSR activities to improve the welfare of the society, which they affect and rely on, there is a growing interest to have CSR activities translate to higher profitability. In specific, some companies are seeking immediate results from their CSR engagements, for instance, increased uptake of their products. The highlighted proposition forms the basis of this study, with a particular focus on the United Kingdom's banking industry. The demand for results is, however, not unique to the UK but cuts across the globe. Blanpain, Bromwich and Agut (2011:165) observe that some business leaders are reading a script fronted by Milton Friedman stating “The Social Responsibility of Business is to Increase its Profits". Friedman’s position was advanced in the face of hard economic times that were shareholders to demand higher profits from those they have bestowed the responsibility of running their business.

Similarly, in the past few years, the global business community has gone through a challenging business environment characterised by the recovery from the 2008 global financial crisis. Companies do not have a luxury of spending; thus, the need to account for every expended penny. Businesses have had to restructure their operations to cut down operational cost, a feature that has seen CSR funding come under scrutiny. In essence, some firms are awaiting further research to determine if they should either scale down or continue with their CSR engagements.

Lin, Yang and Liou (2009) record that research into the impact of CSR on profitability yielded unique results for each company involved in the study. The study included 1,000 Taiwanese businesses and employed a regression model to determine the relationship between the two variables. In the study, the researchers also included the expenditure on research and development as an independent variable in the regression model given it geared towards future sustainability. The attained results pointed to a positive relationship between CSR and profitability in the long run (Lin, Yang, and Liou, 2009). Lin, Yang and Liou (2009) also point out that researchers should adequately control their variables to avoid flawed results. In a similar study, Madueno et al. (2015) concur with Lin, Yang and Liou (2009) that CSR contributes to an increase in profitability. Madueno et al. (2015) record that a study in Spain involving 481 companies revealed that their profits were growing sustainably in congruence with their CSR expenditure. The relationship was observed to be both direct and indirect.

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