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Does Corporate Social Responsibility Spending Enhancing the Financial Performance?

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ABSTRACT

This paper examines the dynamic relationship between financial performance FP and corporate social responsibility spending CSRS in Jordan. The dynamic panel system GMM measurement was utilized for 164 listed companies in Amman stock Exchange. The results demonstrate that CSRS and accounting-based measurement have a beneficial association. There are no correlations between CSRS and market-based measurement, on the other hand. The findings indicated that Jordanian listed companies have a lot of room for improvement when it comes to exposing their CSR efforts across multiple dimensions, which might help the Jordanian government with its ongoing initiatives of social and economic transformation.

1. Introduction

In addition to being one of the most popular topics in financial studies, corporate social responsibility (CSR) has developed rapidly in worldwide marketplaces. This concept is evolving throughout business organizations, according to the marketplace. Companies can meet the requirements of a variety of stakeholders by engaging in social responsibility activities that benefit society (Muritala & Tella, 2014). A company's CSR is implemented for the benefit of both society and the corporation. Companies' presence is visible when they engage in CSR duties, improve their goodwill, provide ethical goods and services, demonstrate environmental concern (Jitaree, 2015; Karlsson et al., 2015; Dahlsrud, 2006), increase their competitiveness, and are able to avoid the market share losing risk (Dahlsrud, 2006; Jitaree, 2015; Karlsson et al., 2015). Moreover, CSR can boost profits, increase productivity enhancement, cut operational costs, and improve capital access (Aras et al., 2010), Boost existing investor dependence, attract new investors (Karlsson et al., 2015; Lev et al., 2010), improve employee retention and motivation, and achieve consumer loyalty (Koo, 2016; Jitaree, 2015).

Several prior research looked into the relationship between CSR activities and financial performance (FP), with mixed results. Some research found a favorable association between

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CSR and FP (Adiputra & Hermawan, 2020; Estiasih et al., 2019; Ahamed et al., 2014; Saleh et al., 2011), a passive relationship (Hashim et al., 2019; Karlsson et al., 2015; Iqbal et al., 2012; and Lopez et al., 2007), (Fernite et al., 2014; Fauzi et al., 2007). Thus, because of the variable study time, sample size, and sample type, the results were ambiguous. The use of diverse techniques for assessing CSR or using restrictive financial indices to measure FP could be the major reason of discrepancies in the outcomes (Koo, 2016; Jitaree, 2015; Nasieku et al., 2014; Ducassy, 2013; Weshah et al., 2012; Palmer, 2012). Furthermore, most previous literature applied CSR disclosure to assess CSR practices. As known, CSR disclosure is based on a company's report, which may or may not reflect the company's true obligation. They could engage in less CSR activities but report more, or vice versa (Aras et al. 2010). As a result, they used CSRS to quantify CSR practice in order to obtain obvious outcones and inclusive picture. CSR spending is the amount of money spent by companies on social responsibility activities that is reported in their financial statements (Mahbuba & Farzana 2013).

The notion of corporate social responsibility has become increasingly popular, particularly in the aftermath of the recent global financial crisis. Jordan's government has urged businesses to play a part in society's direction and to engage in various CSR initiatives that satisfy the demands of society. As a result, the primary goal of this research is to look into the relationship between FP and CSRS among 164 firms in Jordan during the period of 2016-2019. This study took into account all of the variables (sample size, study period, multiple techniques for testing CSR practice, and different financial variables used to measure FP), which could explain the discrepancy with previous studies. The study then employed a large sample size includes two sectors of industrial and services to produce a extensive understanding of the relationship between FP and CSRS. In addition, the study measured FP using 4 market and accounting financial variables, namely return on equity (ROE), price earnings ratio. (P/E), return on assets (ROA), and earning per share (EPS). CSR spending was also used to measure CSR practice in this study.

The structure of this document is as follows: 1) A synopsis of relevant literature is presented in Section 2; 2) Data collection and methods are presented in Section 3; 3) Empirical results and analysis are described in Section 4; and policy implications and conclusions are presented in Section 5.

2. Literature review

Several research looked into the link between CSR practices and FP, with corporate social responsibility as the explanatory variable and FP as the dependent variable (Karlsson et al., 2015; Ahamed et al., 2014; Weshah et al., 2012; McPeak & Bi, 2012). CSR was employed as a dependent variable in certain research, whereas FP was used as an independent variable in others (Koo, 2016). Studies of (Lin et al., 2019; Jitaree, 2015; Santoso & Feliana, 2014; and Palmer, 2012) looked into the two directions for the link and found varied results. Some research found a favorable association between CSR and FP (Adiputra & Hermawan, 2020; Ahamed et al., 2014; and Palmer, 2012;), a passive linkage (Hashim et al., 2019; Karlsson et al., 2015; Iqbal et al., 2012;), or without relationship (Fernite et al., 2014 and Fauzi et al., 2007).

In Jordan, various researchers looked into the relationship between FP and CSRS see for instance (Odeh et al., 2020; Al-Moumany et al., 2014; Mohammad et al., 2014; Al- Shwiyat et al., 2013; and Dabbas & Rawashdeh, 2012). Mohammad et al. (2014), on the other hand, used 120 personnel from a single service provider. Furthermore, several research only employed a year span (Al- Shwiyat et al., 2013; Weshah et al., 2012). Different research

employed CSRS besides CSR disclosure to reflect CSR practice (Al-Moumany et al., 2014; Mohammad et al., 2014; Al-Shwiyat et al., 2013). Furthermore, to examine CSR disclosure, questionnaires were utilized by Al-Moumany et al. (2014), whilst Al-Shwiyat et al. (2013) established an index of CSR to identify CSR disclosure. Many research employed return on assets (ROA) to determine FP see Dabbas and Rawashdeh (2012) and Weshah et al. (2012).

Looked into the relationship between FP and corporate social responsibility disclosure, Saleh et al. (2011) examined 200 companies listed in the Malaysian stock exchange, Bursa Malaysia. CSR disclosure and FP have a favorable link, according to the findings. According to Oeyono et al. (2011), 45 out of 50 enterprises in Indonesia engaged in CSR efforts across all elements of the GRI framework.

According to Edmans (2012), work happiness and corporate value have a positive link. According to McPeak and Bi (2012) suggested a positive correlation between FP and CSR initiatives. According to Yin (2012), there is a favorable relationship between historical financial performance and present CSR disclosure, which has a beneficial impact on financial performance the following year. Apart from the passive relation between CSR expenditure and company growth rate. Ehsan and Kaleem (2012) indicted that EPS, ROE, and ROA have a favorable impact on corporate social responsibility expenditure. The assertion is based on Bayoud's research (2012). The findings demonstrated a positive relationship between CSR financial success and corporate reputation, but no link between CSR disclosure and employee commitment.

ROA and CSR disclosure has significant and positive influence in Indonesia according to Santoso and Feliana (2014). According to Koo (2016), ROA has a favorable effect on Tobin's Q for CSR performance, whereas debt ratio has a negative impact. CSR investment has a favorable and considerable influence on ROA, ROE, and EPS, according to a study by Bagh et al. (2017).

This study looked at the multivariate association between FP and CSRS in Jordan, based on the previous studies' findings. As a result, the following hypotheses were offered in this study. The first set of hypotheses is based on the fact that there was a link between actual CSR spending and FP. The amount of money spent on CSR initiatives is an independent variable in this case. Alternative hypotheses include:

Ha1: There is a considerable positive correlation between CSRS and ROA.
Ha2: There is a considerable positive correlation between CSRS and ROE.
Ha3: There is a considerable positive correlation between CSRS and EPS.
Ha4: There is a considerable positive correlation between CSRS and P/E.

Another set of hypotheses uses actual CSRS as a dependent variable, with the following possible hypotheses:

Hb1: The ROA and CSRS have a considerable favorable association.
Hb2: The return on investment (ROI) and corporate social responsibility (CSR) spending have a considerable positive link.
Hb3: The EPS and CSRS have a considerable positive association.
Hb4: The P/E and CSRS have a considerable positive association.

3. Methodology

The current study looked at the link between CSR spending and financial performance by looking at companies registered on the ASE, one of the most important stock exchanges in the Middle East. Jordan's first company law, Law No. 12, was enacted in 1964, and the 1st

commercial law was enacted in 1966. Jordan rose to prominence in the Middle East as a result of its strategic location as an economic conduit for big markets with a combined population of one billion people (Al-Rdaydeh et al., 2019; Matar et al., 2018). Jordan has also played an important part as one of the world's central emerging countries; yet, in recent years, Jordan's non-financial industry has faced challenges and impediments that have hampered its progress (Al-Rdaydeh et al., 2019; Al-Rdaydeh et al., 2018; Alabdullah et al., 2014). This study chose 164 companies listed in ASE data stream during the period of 2016-2019. To assess the relationship between FP and CSRS, we used a dynamic panel approach called the generalized method of moment (GMM).

To calculate FP, four indicators were used next to ownership were also used as control variables. Table 1 lists all of the variables in the study as well as their measurements.

The mathematical explanations used in this study are demonstrated in the models below. The first four models' specifications are designed to look into the relationship between CSRS and financial performance.

$$ROA_{it} = a + \beta_1 ROA_{it-1} + \beta_2\ CSRS_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 OWN_{it} + \sum YEAR_t = 2016 + u_i + \varepsilon_{it} \quad (1)$$

$$ROE_{it} = a + \beta_1 ROE_{it-1} + \beta_2\ CSRS_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 OWN_{it} + \sum YEAR_t = 2016 + u_i + \varepsilon_{it} \quad (2)$$

$$EPS_{it} = a + \beta_1 EPS_{it-1} + \beta_2\ CSRS_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 OWN_{it} + \sum YEAR_t = 2016 + u_i + \varepsilon_{it} \quad (3)$$

$$P/E_{it} = a + \beta_1 P/E_{it-1} + \beta_2\ CSRS_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 OWN_{it} + \sum YEAR_t = 2016 + u_i + \varepsilon_{it} \quad (4)$$

$$CSRS_{it} = a + \beta_1 CSRS_{it-1} + \beta_2 ROA_{it} + \beta_3 ROE_{it} + \beta_4 EPS_{it} + \beta_5 P/E_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + \beta_8 OWN_{it} + \sum YEAR_t = 2016 + u_i + \varepsilon_{it} \quad (5)$$

4. Analysis and results

From 2016 to 2019, the aggregate mean values for total CSR spending in Jordanian Dinar (JD) were 502,610 JD. Jordanian companies commonly engage in CSR activities such as social security spending, health insurance spending, training course spending, indemnity spending, and gift spending. The majority of Jordanian companies engaged in CSR activities that benefited their employees, with little emphasis on the environment or external society.

Table 1.
All Sectors Descriptive Statistics for CSRS

Year	2016	2017	2018	2019	Overall Spending (JD)
Mean	440,748	552,811	493,095	523,786	502,610
Median	72,016	76,530	73,898	78,204	75,162
St. Deviation	1,709,619	2,104,902	1,847,348	1,847,836	1,877,426

Table 2 illustrates the total amount spent on CSR activities by services and industry enterprises, which is 380,909 JD and 700,183 JD, respectively. For each year of the survey, industrial companies spend nearly twice as much on CSR efforts as service organizations. Industry firms are thought to be more conscious of CSR values refer to kind of product has an impact on numerous extent of CSR, such as the community, environment, product, and employer relations. As a result, the firms should take into consideration the variation of stakeholders groups (Al-Mubarak, 2019).

Table 2.
Each sector Descriptive Statistics for CSRS

Year	2016	2017	2018	2019	Overall Spending (JD)
			Service		
Mean	338,155	394,759	372,945	421,776	380,909
Median	42,452	44,849	44,587	44,812	44,175
St.de	1,666,373	1,878,588	1,739,478	1,835,939	1,780,094
			Industry		
Mean	609,531	812,833	690,762	691,608	700,183
Median	136,557	133,621	147,247	172,904	147,582
St.de	1,779,296	24,259,923	2,011,323	1,870,033	2,021,661

Table 3 reveals that the distinctions between the businesses are based on their size, activities, and industry. For example, ROE ranges from -8.00 to 1.89 for the entire period, while EPS ranges from -1.13 to 4.85. Some metrics, like as ROA and ROE, have negative values. The favorable averages are EPS of 5% and P/E of 72.80.

Table 3.
Descriptive Statistics for financial indicators

Category	ROA	ROE	EPS	P/E
Mean	-0.032	-0.051	0.052	72.80
Median	0.002	0.006	0.007	14.41
St. deviation	0.402	0.435	0.473	233.40
Max	1.55	1.89	4.85	4580
Min	-5.15	-8.00	-1.13	0.33

4.1. Unit root tests

The practical concern is how to avoid the spurious regression problem that can develop when regressing a non-stationary time series as a preliminary test for GMM. If we have a non-stationary time series, we must use the first difference to make it stationary (Gujarati& Porter, 2009). It is critical to examine the study variables' stationary requirements. Table 4 shows the results of the ADF and PP tests in terms of both levels and first-differences.

Table 4.
Unit Root Tests

Variables	ADF level	ADF 1st difference	PP level	PP 1st difference	Order of Integration
ROA	-0.9762	-6.7690***	-0.8967	-5.6502***	*I (1)*
CSRS	-1.1527	-4.1711***	-2.4882	-4.3684***	*I (1)*
SIZE	-0.4256	-51851***	-0.6244	-7.2663***	*I (1)*
LEV	1.5782	-6.2670***	1.4286	-6.4848***	*I (1)*
OWN	-2.2584	-5.8185***	-2.6842	-4.6230***	*I (1)*
ROE	-3.1692	-4.92763***	-2.4631	-5.4222***	*I (1)*
EPS	-1.3474	-7.0156***	-1.5844	-6.6430***	*I (1)*
P/E	-0.4586	-4.8186***	-0.6680	-7.8354***	*I (1)*

Notes: ***, ** denotes significant level of 1% and 5%, respectively.
Source: output of E.Views Package, version 10.

The results show that the (H0) of unit roots for all research variables in level forms, which is stationary at I, cannot be ruled out (0). When the ADF and PP tests were applied to the first differences of each variable, the null hypothesis was rejected. All of the variables' first differences are stationary of order one, I (1). Now that all variables are stationary, it's time to see if they can be merged without any issues.

Table 5.
Correlation Matrix Test

Variables	ROA	CSRS	SIZE	LEV	OWN	ROE	EPS	P/E
ROA	1							
CSRS	0.58	1						
SIZE	0.15	0.23	1					
LEV	-0.03	-0.19	0.42	1				
OWN	0.20	-0.45	-0.05	-0.08	1			
ROE	0.22	0.33	-0.21	-0.23	0.42	1		
EPS	-0.08	-0.04	-0.41	-0.04	0.62	-0.02	1	
P/E	-0.09	-0.08	-0.61	-0.11	0.32	0.45	0.19	1

Table 5 shows that the strongest correlation between P/E and size is –0.61, indicating that there is no serial correlation or multicollienarity among study variables.

4.2. Hypothesis testing

The regression analysis in the following sections is used to look at the relationship between FP and CSRS. The results of both specification tests, AR (2) for serial correlation testing and the Hansen test for instrument validity testing, are valid. The AR (2) and Hansen tests have p-values greater than 0.10. It denotes the importance of the statistical analysis. This means that all models are devoid of autocorrelation issues.

The examination into the relationship between ROA and CSRS is shown in Table 6. At a 5% significant level, the factor of time has a favorable impact on the trend of ROA. As a result, the current year's ROA might increase by 4.7 percent over the previous year. At the 1% significance level, the results show that ROA and CSRS have significant positive association. If CSR spending increases by 1%, ROA can increase by 4.2 percent. As a result, the alternative hypothesis that CSRS has a positive influence on asset ROA is accepted.

Table 6.
One-Step System GMM of CSRS & ROA, Dynamic Panel-Data Estimation

	Model 1		
Variables	**Coefficients**	**Standard Error**	**P-Value**
ROA	0.0532**	0.03131	0.024
CSRS	0.0544***	0.01244	0.000
Control Variables			
SIZE	0.08403	0.06658	0.221
LEV	0.32024***	0.05639	0.000
OWN	0.22871	0.25341	0.290
Number of instruments	11		
Number of observations	326		
Number of groups	164		
AR (2)-p value	0.331		
Hansen/Sargan test –p value	0.777		

Note (1): *, **, *** denote 10%, 5% and 1% significance levels, respectively. (2) Year dummies and constant are not included in order to save space. All p-values of the difference in Hansen tests of exogeneity of instruments subsets have also been rejected at least at 10 percent significant level.

Results of the relationship between ROE and CSRS is shown in Table 7. As a result, because the p-value is greater than 10%, the prior value of ROE has no bearing on the current value of ROE. Furthermore, at a 1% significance level, the results show that CSR spending has a substantial association with ROE. Furthermore, Leverage ratio considerable positive association with ROE. On the other vein, ROE with total assets and ownership have no

correlation. CSRS has a favorable impact on ROE, with ROE increasing by 9.3 percent when CSRDI increases by 1%. As a result, we accept the alternative hypothesis.

Table 7.
One-Step System GMM of CSRS & ROE. Dynamic Panel-Data Estimation

	Model 2		
Variables	**Coefficients**	**Standard Error**	**P-Value**
ROE	0.05022	0.04634	0.300
CSRS	0.09397***	0.03035	0.000
Control Variables			
SIZE	0.14231	0.12180	0.151
LEV	0.75242**	0.45256	0.029
OWN	0.75642	0.60552	0.302
Number of instruments	11		
Number of observations	326		
Number of groups	164		
AR (2)-p value	0.320		
Hansen/Sargan test– p value	0.5723		

The examination into the relationship between EPS and CSRS is shown in Table 8. There is no link between CSR spending and EPS. Furthermore, control variables only appear to have a meaningful impact on leverage at 1 percentage level of significance. Ownership and size of the company, on the other hand, have little bearing on ROE. As a result, the alternative hypothesis is ruled out.

Table 8.
One-Step System GMM of CSRS & EPS, Dynamic Panel-Data Estimation

	Model 3		
Variables	**Coefficients**	**Standard Error**	**P-Value**
EPS	0.03402	0.03180	0.321
CSRS	0.04428	0.05447	0.420
Control Variables			
SIZE	0.23611	0.08465	0.220
LEV	0.61225***	0.30212	0.003
OWN	0.58736	0.29223	0.211
Number of instruments	11		
Number of observations	326		
Number of groups	164		
AR (2)-p value	0.33		
Hansen/Sargan test– p value	0.611		

Note (1): *, **, *** denote 10%, 5% and 1% significance levels, respectively. (2) Year dummies and constant are not included in order to save space. All p-values of the difference in Hansen tests of exogeneity of instruments subsets have also been rejected at least at 10 percent significant level.

The relationship between price earning ration and CSRS is revealed in Table 9. Because the p-value is 0.675, the results show that there is no significant relationship between CSR spending and the P/E ratio. Furthermore, none of the control variables have a significant impact on the price earnings ratio. As a result, the alternative hypothesis is ruled out.

Table 9.
One-Step System GMM of CSRS & P/E, Dynamic Panel-Data Estimation

	Model 4		
Variables	**Coefficients**	**Standard Error**	**P-Value**
P/E	-0.00627	0.02153	0.715
CSRS	11.37530	30.716	0.675
Control Variables			
SIZE	34.81310	33.835	0.333
LEV	-19.22330	91.633	0.825
OWN	-15.52614	144.320	0.833
Number of instruments	11		
Number of observations	326		
Number of groups	164		
AR(2)-p value	0.422		
Hansen/Sargan test– p value	0.411		

Note (1): *, **, *** denote 10%, 5% and 1% significance levels, respectively. (2) Year dummies and constant are not included in order to save space. All p-values of the difference in Hansen tests of exogeneity of instruments subsets have also been rejected at least at 10 percent significant level.

Table 10 shows that the time factor has a favorable impact on CSR spending trends. As a result, actual spending on CSR initiatives is expected to rise by 3.4% this year when compared to last year's level. In addition, the findings show that ROA, ROE, and CSRS have significant relationship. Contrary to popular belief, there is no connection between corporate social responsibility (CSR) investment, P/E, and EPS, from other vein. This indicates that for Jordanian firms, changes in (EPS and P/E) have no impact on real CSRS. At a 1% significance level, asset size has a considerable impact on CSRS. Furthermore, at a 5% level of significance, there is significant negative link between CSR expenditure and leverage. Ownership has little impact on CSR spending because the percentage is negligible (84,1%).

Table 10.
One-Step System GMM of FP & CSRS, Dynamic Panel-Data Estimation

	Model 5		
Variables	**Coefficients**	**Standard Error**	**P-Value**
CSRS	0.04321***	0.02141	0.000
ROA	0.07283**	0.04434	0.023
ROE	0.04764***	0.02165	0.000
EPS	0.08225	0.08234	0.210
P/E	0.00002	0.00004	0.590
Control Variables			
SIZE	0.84327***	0.17016	0.000
LEV	-0.81237**	0.35884	0.035
OWN	0.043255	0.52548	0.841
Number of instruments	11		
Number of observations	326		
Number of groups	164		
AR(2)-p value	0.830		
Hansen/Sargan test– p value	0.910		

Note (1): *, **, *** denote 10%, 5% and 1% significance levels, respectively. (2) Year dummies and constant are not included in order to save space. All p-values of the difference in Hansen tests of exogeneity of instruments subsets have also been rejected at least at 10 percent significant level.

The GMM results demonstrate that the accounting performance and expenditure of CSR have a substantial association (ROE, ROA). However, P/E and EPS that represent actual spending on CSR have no significant relationship. As a result, we can accept Ha1, Hb1, Hb2, and Hb2. ROA and ROE will rise by 4.2% and 8.2%, respectively, if CSR expenditure is increased by

1%. Meanwhile, CSRS can increase by 8.3% if ROA increases by 1%. In addition, when ROE rises by 1%, CSR spending rises by 3.8%. This finding demonstrates that Jordanian firms' productivity might be impacted by CSR spending. These findings are in agreement with those of a research by (Odeh et al., 2020; Lin et al., 2019 and Al-Shubiri et al. 2011) they suggested that FP has a strong positive link with CSRS.

To the contrary, theories Ha3, Hb3, Hb4, and Hb4 that are linked to P/E and EPS were refuted in this study. These financial statistics have no bearing on how much money is spent on CSR initiatives. As a result, changes in the value of financial market indicators will have no effect on CSR spending and vice versa. These findings contrasted with those of Yin (2012), who found a positive correlation between CSR spending and stock market performance, which he attributed to the efficiency of the financial markets. The Jordanian financial market is inefficient due to the lack of systematic information about listed companies and the fact that it is unavailable for all stockholders (Bekhet & Matar, 2013).

5. Concluding remarks and implications

Our research added a lot of new information about corporate social responsibility (CSR) in Jordan. This research looked at the relationship between FP and CSRS in Jordan, where CSR activities is measured by CSRS. A minimal number of financial variables and a short time period were employed in the majority of prior studies to determine the FP. The sample consists of industrial enterprises that are listed in ASE during the period of 2016-2019 in order measure FP by combining (ROE, P/E, EPS, and ROA) as financial variables. This method coupled accounting-based performance with market-based performance. The GMM was used to investigate the relationship between FP and CSRS with CSR disclosure. There is a favorable and strong correlation between CSRS and financial success (ROA and ROE), according to the findings. Higher CSRS can lead to higher profitability, as can spending less on CSR initiatives while getting better financial returns. Furthermore, the findings reveal no link between CSRS and stock market performance CSR literature in developing nations, such as Jordan, could benefit from such findings. As a result of the findings, stakeholders now have new perspectives on CSR operations, which have significant benefits for enterprises and stakeholders alike. Companies will become more competitive by improving their reputation, increasing productivity. On a local level, corporate social responsibility may help alleviate poverty by providing more financial aid, as well as by supporting charities that work to enhance the health and education of the community.

For further studies, we recommend researchers to use another proxy that represent FD such as domestic credit to private sector and stock market return. Moreover, this study focus on CSR spending, however, future studies may focus on CSR disclosure and CSR investment and FD nexus. The main limitation of this study represented by the lack of data regarding CSR disclosure for sum listed companies, not all of listed companies reveal their CSR spending on their financial reports as well as some of these companies spend a very modest amount as CSRS.

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