RELATIONSHIP BETWEEN CORPORATE SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE – AN EXAMINATION OF FRIFP MODEL

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ABSTRACT

The study on the relationship between Corporate Social Performance and Corporate Financial Performance is a crucial issue of business concerns. There is no model for finding out the relationship between CSP and CFP, using the data available in the books and records of firms. Hence this paper proposes to develop a model to measure the Corporate Social Performance and Financial Performance of firms. This study developed a new model, namely, FRIFP model, for identifying the relationship between Corporate Social Performance variable and financial performance variables. Under the FRIFP model, one CSP variable, namely, FRI and four CFP variables, namely, ROA, ROE, ROCE, and Size of the firms, were identified for the study. The BSE listed 30 firms were taken as a sample for this study. This study covered a period of eight years from 1.4.2014 to 31.3.2022. The study found that there was positive relationship between Corporate Social Performance variable and Corporate Financial Performance variables of the BSE listed firms in India. This new model would help to know the importance of corporate social performance in the improvement of the corporate financial performance of the firms in the long run.

Keywords: *Corporate Social Performance, Corporate Financial Performance and Fortune Reputation Index*

1. INTRODUCTION

The Corporate Social Performance (CSP) has emerged as vital component of all business concerns (Berns et al., 2009). The CSP Reputation is a dynamic and path dependent understanding by stakeholders about prospects of the firm; it is also based on the observations of the firm's historical trajectory of CSP actions over time. It is true that there is no theoretical basis for the manner in which the reputation has been developed in business and society.

The concepts and measures for measuring the reputation of CSP, do lack clarity in the literature (Wartick, 2002). Firms' CSP always involves acts of social responsibility over time and it shapes the firms to perform better (Barnett, 2007). Now a days firms are more active in identifying social activities, with the focus on discharging various welfare activities for society (McWilliams and Siegel 1997; Jensen 2002). Social performance is an effective means for establishing and improving the overall reputation of the firms in a much better manner, which could ultimately improve the financial performance of a firm in the long run (Orlitzky et al. 2003).

In the changed business environment, the CSP has become the fundamental responsibility of firms. Every firm is expected to take care of its own survival as well as the well-being of society. The sound business operations need to address the demand of all primary stakeholders, particularly the society (Maignan and Ferrell 2003**)**. At the same time, every firm must also comply with different legal aspects, along with its business principles, while discharging social responsibilities.