An Evaluation of the Relationship between Corporate Social Investment and Financial Performance.

by

Kobo Kgabo Lynn
[redacted]

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Supervisor: Professor C.C. Ngwakwe

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N J Nel

PO Box 365,
BENDOR
PARK 0713

Tel:
0741849600

CERTIFICATE

This serves to certify that I have language edited the Mini Dissertation of

Mr. Kgabo Lynn Kobo,

[redacted]

Entitled:

"AN EVALUATION OF THE RELATIONSHIP BETWEEN CORPORATE SOCIAL INVESTMENT AND FINANCIAL PERFORMANCE"

N J Nel

Lecturer of English, Department Applied Languages

Tshwane University of Technology

(Retired)

2/8/2016

Declaration

I Kobo Kgabo Lynn, University of Limpopo, South Africa [redacted]. Declare that the mini- dissertation written is my own work and that all references (Direct quotes or paraphrases) have been indicated.

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Mr. Kobo Kgabo Lynn Date

[redacted]

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Abstract

The researcher using Quantitative process is aimed to appraise Corporate Social Investment (CSI) in relation to Corporate Financial Performance (CFP). This research addressed theoretical paradigms of CSI, leadership strategies applied to implement CSI and stakeholder theory is presented. The study area was Johannesburg Stock Exchange FTSE/JSE Responsible Investment Index. The top 35 recorded companies were chosen, and then from top 35, only 5 companies were used (25 observations). Data from 2011 to 2015 were obtained from audited integrated financial statements, websites, publications and annual reports. CSI indexes and financial presentation measures of companies were taken from the annual reports to be analysed using simple regression equation to examine the link between corporate social investments to company's fiscal presentation. This study revealed a strong positive linkage among company's social investment strategy implementation and share price, turnover, and return on equity. Companies that implemented social investment strategy noticed increase in profit because of factors such customer awareness, good firm reputation and competitive advantage.

Chapter 1

Introduction

1.1 Background of the Study

The topics of examining the connection between corporate social investment and how firms perform financially have grasped the attention of many researchers (Brammer & Millington, 2008; Surroca, Tribo & Waddock, 2010; Wood, 2010).

Recently large corporate operations are found to be on the wrong side of law by contributing to social, environmental, and economic problems. These burning issues need the intervention from Government, Non-Governmental Organisations (NGO). There are also increased demands from the consumer for corporate to take responsibility of their operational activities which have negative consequences to the society and the environment. Corporate should find better way of conducting their businesses while maintaining responsibility and sustainability (Porter & Kramer, 2007).

Corporate social investment is when companies voluntarily incorporate economic, social, and environmental distress in their daily operational activities; this is done in the concern of various stakeholders (European Commission, 2001). Margolis, Elfenbein, and Walsh (2007) explain that defining Corporate Social Investment (CSI) is complicated, as the use of the definition depends on the situation at hand, and there existence of a large number of mixed definitions for corporate social investment (CSI).They further report that the definitions are inconclusive as they can be substitutable and correspond with many other terms. Corporate social investment is when a company is not only focusing in maximizing its profit, it is all about being social good and sticking to operates under lawful conditions (McWilliams & Siegel, 2001).

Corporates should first engage with stakeholders to find the needs and wants of the community before they decide on how to invest in the society. Top managers should also have an idea on how is the social investment going to benefit both the community and the shareholders before they decide on doing it (Doane, 2005).

Globally there is a high call from the society that corporates and regime must take full responsibility to ensure that corporate economic development does not negatively affect the society (Morimoto et al., 2005). King Code of Governance (2009) refer this as “good Citizen”, meaning that corporates contributes towards sustainable development. Contributing towards a sustainable development is a voluntary practice taken by South African corporates. However King III Code 2009 on Governance for South Africa will penalize any corporates found guilty of polluting air, committing harmful action to the environment. In South Africa it is against law for all JSE listed companies not to cooperate with King III principles, and if they don’t comply they should explain why they did not.

Corporate should work together with Government to address countries’ challenges such as fast population growth with slow economic growth, high unemployment rate, economic instability, high HIV/AIDS rate. Manwaring and Spencer (2009) suggest that companies should incorporate social investment strategy to form part of the society, helping hand to the government, and practice good corporate governance. Government should intervene to encourage social investment practice and reporting (KPMG, 2011).

Given all the above background of corporate social investment and its importance to South African citizens, and legal demand for all listed corporates to report “or else explain why not”. The scholars are interested to know how corporate social investment affects the financial performance of the company.

1.2 Problem statement

Since the universalisation of the conception of CSI, there have been diverse opinions as to what corporate social investment is envisioned to achieve for a business. Moon, Bae and Jeong (2014) indicated that corporates that use social investment strategy as by law or choice are assisted by investors to increase profit while conducting the business lawfully and ethically. Corporates which incorporate social investment strategy gain more trust from the investors, and the society. Furthermore these corporates have higher likelihoods to acquire better access, and more funds from bank loans which enable the corporate to implementing strategic investments and corporate growth. This social investment strategy gives the impression of creating value to the company; hence there is increased interest among researchers to question the possible linkage between social investments implementation and financial performance of a company (Cheng et al., 2014). According to Peng and Yang (2014), majority of studies in this area are more dominated in United State Stock Exchange. The outcomes of these studies create restrictions to understand the financial performance implications, authority, policies of the environment, because corporate practices differ globally.

Even though there are large quantity of studies globally questioning the link between corporate social investment and fiscal of the firm, published information about South African firms is inadequate. It is important to question the nature of linkage of social investments strategy to firm's financial presentation due to increase competitive market and bearing in mind that large South African companies are regulated by law when it comes to sustainability reporting. If the researcher reveals a strong positive link between social investment and firm's financial improvement, then businesses can be strengthened to enlarge its social investments and reporting more than it is expected to. However, if a link cannot be revealed or is reasoned to be negative, businesses can have financial benefit by investing normally to social and reporting only at the obligatory level. This study will evaluate the impact of CSI on financial performance of South African businesses. The relationship between CSI accomplishments and CFP is unclear (Margolis & Walsh, 2001) mostly within the South African setting, this study will therefore add to the literature by studying this relationship in South Africa.

1.3 Research questions

Literature stated positive, negative, and mixed results about the relationship between CSI and CFP, this study hypothesised the following:

H1: Is there a link between companies that does contribute towards social investment and Share Price (ShP) of those companies?

H2: What is the relationship between Corporate Social Investment and turnover?

H3: What relationship exists between Corporate Social Investment (CSI) and return on equity?

1.4 The objectives of this research

The number of companies involved in social investment in South Africa keeps on increasing, therefore it is reported that many companies issue corporate social investment (CSI) reports. KPMG (2011) has indicated that for many industrial sectors, corporate social investment has been a ritual for many decades.

Drawing from the problem statement above, the objectives of this research are:

- To examine the relationship between Corporate Social Investment (CSI) and share price.
- To evaluate the relationship between Corporate Social Investment (CSI) and turnover.
- To evaluate the link between Corporate Social Investment (CSI) and return on equity.

1.5 Aim of the study

This study aimed to evaluate the relationship between corporate social investment and financial performance of companies in the Financial Times Stock Exchange /Johannesburg Stock Exchange (FTSE/JSE) Responsible investment index 2015.

1.6 Rationale of the study

There are not many studies that examine the relationship of corporate social investment and corporate financial performance specifically in the sub-Saharan Africa (Matten & Moon, 2008, Visser, 2006). Implementing good governance, as stated by King III, provides an excellent tool for corporate legitimacy amongst stakeholders by improving corporate image recognition, with the almost inevitable improvement in corporate reputation and legitimacy (Bebbington et al., 2008; Morimoto et al., 2005; Kolk, 2010).

According to Kolk (2010), "more polluting industries such as chemicals, utilities, oil and gas, traditionally reported their CSR performance, although financial industries such as banks and insurance companies were increasing their disclosures". This study is interested to know the relationship between CSI and Corporate financial performance at such companies.

1.7 Significance of the study

Studies which question the linkage concerning corporate social investment and financial performance are mostly done in developed countries. The researcher chosen to focus on South African companies, because there are different boundary conditions between developed and developing countries. South Africa is one of the sub-Saharan African regions. It is challenging for corporates in the region of sub-Saharan Africa to access funds in a form of working that helps companies in conducting social investment (Austin et al., 1996; Chu, Benzing & McGee, 2007; World Bank, 2000, 2005).

The outcomes of this study will contributes to the corporates top management in making decisions to including social investment in their strategic plans. The study will provide transparency results to guide the top management on the effect to social investment strategy to firm’s financial presentation. Results may also guide South Africa law to strengthen adoption of corporate social policies. The study will also add valuable information to the previous empirical literature on link between corporate social investment and corporate financial end result.

In addition, this study is significant for educational knowledge and will increase outcomes that will also be recommended to other researchers and students from University of Limpopo and other universities in the world.

1.8 Definition of Concepts

Investing and participating in public and environmentally friendly activities of a corporate’s operations and interaction with the businesses stakeholders on a voluntary basis can be referred as a corporate social investment. Social Investment is a theory that explains the involvement and responsibilities of the companies to consider the effects of their daily operations activities to the environment, and also the usage the companies’ wealth to change the lives of the people in the country were they operate (European Commission, 2001).

Corporate Social Investment is when a company go beyond making profit, it is when a company obeying law by enforcing strategy which benefit the community (McWilliams & Siegel, 2001).Anything that make positive contribution to the company’s value and at the same time contribute toward cost reductions can be defined as corporate financial performance (Lorino ,2001).

Elliott and Rowland (1996) defined share price “as the price of a single share of a number of saleable stocks of a company, derivative or other financial asset. It is the amount by which the issue price of a share exceeds its nominal value”. According to Elliott and Rowland (1996) “turnover is a ratio widely used to evaluate a company's operational efficiency”. Firm’s operating profit margin is another term for turnover while other books referred to as “sales”.

Return on equity ratio mostly abbreviated ROE. Is a description of a company's success by measuring the amount of profit that has been generated by the company beholding at the contributions from shareholder's investments. ROE describes company ability to manage funds (capital) given by shareholders to make profit. "Profit for a period expressed as percentage of the average shareholders" funds utilised by the accounting entity during the period" (Mahoney & Roberts, 2007).

1.9 Structure of Dissertation

Chapter one of this study gave the contextual of the concepts Corporate Social Investment and Corporate Fiscal Performance. It is stated that the society demands that the Corporate and Government must share the responsibilities to address the need of the Nation. According to King III, CSI is an obligation; whereby the corporate must reports or rather disclose sustainability. Previous studies have produced different results. From these different results, the problem statement was made. The researcher is aiming to investigate link between CSI and CFP. Financial Performance was divided into sub-problems to create research question as follows: What is the relationship between CSI and Share price? , what is the relationship between CSI and turnover? , and lastly what is the relationship between CSI and return on equity.

Chapter two is the Literature Review which went into details to explain the concepts of CSI and CFP. This chapter explained the genesis of CSI definitions from the 1950s, and then went to latest definitions from the year 2000. The chapter explained how to measure CSI. Implementation of CSI is the role of both Corporate Managers and the Boards of Directors. The reasons why corporates are using the Stakeholders theory, and why stakeholders are interested in CSI reporting are covered. The researcher explained the Corporate Governance and disclosure concepts and further gave advantages and reasons why corporates incorporate CSI in their strategies. Description of CSI state in South Africa was covered. The dimensions of CSI were covered. The concept of CFP, its measurement was also covered. The researcher further went on to give results of other writings on examining the link between company's capitals with related to social investment. Lastly the relationship between SCI and each object was explained separately.

Chapter three is the research Methodology. The chapter gives a comprehensive approach on how data were collected and methods used to analyse the data. Johannesburg-stock exchange FTSE/JSE was the study area, with a population of 61 listed companies on JSE. From 61 companies the researcher took the top 35 listed companies, five companies were selected based on their sustainability reports. Data were collected using a computer with internet. The data collected were the Social report and share price, turnover, return on equity. These values are found in sustainable integrated reports for selected companies. The data were selected from the year 2011 to 2015. This chapter covers the equation to be used to analyse the data. The ethical consideration of this study is covered in chapter three.

Chapter four is data presentation and analysis. Real names of companies are withheld for security reasons. Five selected companies were named Company A, B, C, D, and E respectively. Raw data are presented; the data were then transferred to bar charts which are shown in this chapter. The data were analysed using linear simple regression equation. The results were interpreted using p-value. Furthermore, results of this study were compared to previous similar studies, and also compared with dissimilar previous studies. Reasons why the results are similar or dissimilar are given.

Chapter five is the summary of the whole study. It contains recommendations and conclusions. Summary of each objective is found in this chapter. The scholar recommends that the future researchers should use a large sample size for a longer period. The conclusion of this study was based on the results found in chapter four. The results of this study were able to conclude the link between social investment and corporate fiscal presentation.

1.10 Summary of Chapter One

Many researchers have premeditated the association amongst Corporate Social Investment (CSI) and the performance of company financially. CSI has many different definitions, but these definitions have common key aspects which involve social and environmental concerns. Many researchers never produced common results of the relationship between CSI and CFP. All listed companies on JSE are requested to incorporate CSI in their business strategy. This is an obligation as stated by King III, Corporate Governance Code of conduct. Listed companies are working together with Government to resolve the burning issued of the communities where the companies operate, improving the economic state of the country, while protect the environment. The research question was derived from the gap found in literature. Therefore, this study will question the relationship between Corporate Social Investment and corporate fiscal presentation of listed companies in South Africa. The study is aimed to examine the relationship between CSI and CFP. The researcher is interested in this study because there are few studies to evaluate the association among CSI and CFP done in S.A, therefore this study is significant as a baseline to review current policies, for educational purposes, it will also add knowledge to the current students and future researchers. The concepts: Corporate Financial Performance, Share Price, Turnover, Return on Equity are defined.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter defines and describes Corporate Social Investment (CSI) contextual, and the important implications of CSI. The chapter discusses the theoretical concepts of CSI and how stakeholder theory is applied and it also explains Corporate Financial Performance. The hypothetical background and appropriate concepts from the previous studies examining the linkage of social investment and firm's financial performance will be covered in this chapter. The theoretical concepts regarding CSI and its three dimensions will also be discussed in this section.

This chapter is made up of information from more than 15 published journals, which produced divergent results. Similar studies of examining the relationship of CIS to CFP have been done by Margolis and Walsh in 2003, so as Griffin and Mahon in 1997. However the studies Griffin and Mahon utilized broader duration from 1972 to 2002, meaning for 30 years. Among 127 studies, positive link between CSI and CFP was found in 70 studies. A negative link between CSI and CFP was found in 7 studies, inconclusive results were found on 28 studies, while the remaining 24 studies revealed mixed relationship.

2.2 Corporate Social Investment (CSI).

Surprisingly, for this important interesting topic, majority of researchers, organizations and companies have defined corporate social investment in different ways because of its broad nature. CSI has been defined by many; however there are diverse definitions and descriptions of CSI (Scherer & Palazzo, 2007; Wood, 2010). The meaning of CSI is not the same to everybody (Van Marrewijk, 2003). Due to these claims, some authors have concluded that since there is no clear definition of CSI it is challenging to conduct a clear study on corporate social investment (Lozano, 2008; Orlitzky et al., 2011; Van Beurden & Gössling, 2008). There are claims that the contributing factors lack of common definition of CSI is because there are no limits to describe CSI, and as

Van Marrewijk (2003) said CSI is not the same to everybody, meaning anyone can define CSI by using social, environment and economic elements (Talaei & Nejati, 2008).

Data from the Economist Intelligence Unit, Global Business Barometer done in 2007 between November and December says the topic of CSI has progressively prioritised in the corporate for the past three years and to date. It is also indicated that this topic will remain relevant and very highly prioritised by the corporate in the coming years from now.

Private Corporates and Government can work together in order to achieve country's sustainable development objectives. Basically it entails how a business takes account of its economic, social and environmental influences in the way it operates. Specifically, we see CSI as the optional actions that a business can take, in addition to compliance with minimum legal requirements, to address or direct both its own competitive welfares and the interests of the wider civilization.

Regardless of numerous studies on the linkage between CSI and CFP, there are still controversial arguments and debates about the usefulness of CSI to CFP (Barnett & Salomon, 2006). However, findings of these massive studies are rather inconclusive and misleading because many studies resulted in a positive link between corporate social investment and corporate fiscal presentation (Margolis & Walsh, 2003; Mishra & Suar, 2010; Vogel, 2005). According to Mittal et al., (2008) there is no link between corporate social investment and corporate fiscal presentation. The existing research so far has failed to give conclusive answers about the relationship between CSI and CFP (Margolis, Elfenbein & Walsh, 2007).

Many previous studies in this related topic greatly rely and base their conclusions on the records provided by Kinder, Lydenberg and Domini (KLD) (Andersen & Dejoy, 2011). Alternative measurements on CSI performance should also be considered in the literature (Margolis et al, 2009). The link between corporate social investment and corporate fiscal presentation has rarely been tested with non-linear regression, although it is in line with economic intuition (Barnett & Salomon, 2012, 2006).

According to Barnett and Salomon (2012, 2006), as the number of firms that volunteer to partake in social investment activities go up, the higher corresponding cost will also be incurred. The conclusion was that, “firms with higher CSI score in the index have invested more financial resources in CSI compared to those firms with lower CSP”. Corporate social investment is difficult to measure as it is a multidimensional perception which covers a large set of diverse spaces (Waddock & Graves, 1997). The frequently raised questions regarding which financial performance comes first between corporate social investment and corporate social investment, there are two theories answering the question, the Slack resource theory and a good management theory (Waddock & Graves, 1997; & Dean, 1999).

Under the slack resource theory, a company cannot incorporate social investment in its plans while it does not have a good financial position. A successful implementation of corporate social investment involves the utilization of a huge amount of corporate’s fiscals. Therefore, the theory suggests that a firm should have a very good financial performance before it uses social investment strategy to further maximise the financial performance. There is a clash between a good management theory and slack resource theory because good management theory suggests that social investment comes first. Good management theory bases the argument on the fact that a corporates with social investment strategic plans is viewed to have good standing by stakeholders. The corporate with social investment gain customer’s loyalty, attract more investors which result in good financial performance (Waddock & Graves, 1997; & Dean, 1999).

It is not challenging to measure how a company is performing financially, but what is challenging is, measuring corporate social investment. Challenges in measuring corporate social investment warranted earlier studies to used dissimilar method to question the linkage between social investment and fiscal presentation. Social investment can be observed on the way corporate contribute toward the training and development of its employees, the way the firm treat its employees when it comes to basic condition at work, health and safety issues, making donations to the public, and showing kindness to disadvantaged citizens. It may be possible to use similar measurements for some approaches but, with a different assessor, the general social investment dimension may end in a different perception (Mahoney & Roberts, 2007).
Financial performance can be measured using several variables. Choi and Wang,

(2009) mentioned the use of return on assets, Mitchell and Sonnenfeld (1999) mentioned the use of return on equity, Fauzi and Idris (2009) mentioned the use of sales growth, Callan and Thomas (2009) mentioned the use of return on sales and lastly Habisch and Pechlaner (2009) mentioned the use of operating margin.

There are four pillars of corporate social investment. The first one is called economic level. It is the main pillar to contribute towards country's sustainable development. Economic level involves the splitting up of the firm's wealth to benefit the society. The second level of social investment is called legal level. It involves the firm's complying with legitimate requirements, producing products and services in a good manner without harming the environment and the people. The third level is called ethical level. It involves responsible firm's operational activities, corporates with social investment gain loyalty, trust and respect from the stakeholders. The last and fourth level is called philanthropic level. It involves the corporate's contribution to charities, providing scholarships and bursaries to students, contributions toward social entrepreneurs aiming to improve superiority of social life (Carroll & Buchholtz, 2014).

Corporate social investment strategy is a longstanding investment which benefit both the needs of shareholders and stakeholders. Corporate should focus more on achieving the need of stakeholders as part of code of practice from king III (2009), then financial benefit will follow (Cannon, 2012). Corporate social investment can also boost the social progress of the country by investing in new ideas that will create jobs (Nogalski & Klisz, 2011).

2.2.1 The concept of Corporate Social Investment

Since the 1950s, many CSI definitions were developed by the scholars; however it is difficult to get a solitary meaning for corporate social investment. Majority of CSI definitions are grounded on the social, economic, and environmental framework (Kuhn & Shriver, 1991). Other descriptions of CSI include measurements of economic development, ethical practices, environmental protection, transparency, accountability, responsible behavior, moral obligation and corporate responsiveness. In the following subsection, CSI is defined from 1957 and classified as the genesis of CSI, while definitions from the year 2000 are classified as latest in this study.

Genesis of CSI definitions

According to Heald (1957), another CSI expert of the contemporary period gave a definition of CSI as: “CSI is recognition on the part of management of an obligation to the society it serves not only for maximum economic performance but for humane and constructive social policies as well”.

Reading from the above definition of CSI, it will be noticed that around the 1950s was a period of the beginning of Modern era of CSI, whereby corporate managers and boards of directors started feeling that they exist as society exists and they have some obligation towards the society (Bowen, 1953; Heald, 1957). Obligations refer to corporate pursuing policies, or following those lines of action which are regarded as desirable in terms of the objectives and values of the society. CSI definitions grew well in the 1970s (Backman, 1975).

Latest definitions of CSI from the year 2000

The Economist Intelligence Unit (2005) states that defining Corporate Social Investment is complex and contingent on situational factors and moreover, there are an enormous number of varied definitions for Corporate Social Investment and one of the reasons behind the inconclusiveness of the definitions of Corporate Social Investment is rooted in its interchangeable and overlapping characteristics with other terminologies. The European Commission (2001) explained corporate social investment as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”.

Tsoutsoura (2004) defines the corporate social Investment as “achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment.

Tsoutsoura (2004) said that the definition of what would exemplify CSI is: “An action by a firm, which the firm chooses to take, that substantially affects identifiable social stakeholders‟ welfare.”

The Parliamentary Joint Committee on corporations and financial services defines CSI as "the company considering, managing and balancing the economic, social and environmental impact of its activities" (PJC, 2006).

According to the UK Government (2007) "CSI is the business contribution toward sustainable development goals. Essentially it is about how a business takes account of its economic, social and environmental impacts in the way it operates". It further explained CSI as the voluntary actions that a business can take. Taking that decision is part of compliance with minimum legal requirements, also to address its own competitive interests and the interests of wider society.

KPMG (2011) indicates that a good number of companies see Corporate Investment as a means to drive greater innovation through their businesses and products in order to create an obvious competitive advantage in the market. Companies are increasingly starting to realise that Corporate Investment reporting is about more than just being a good corporate citizen. KPMG (2011) further indicates that corporate investment reporting for a number of industry sectors has been the norm for more than a decade. Sectors that have the greatest influence over society and the environment (such as certain sectors of the energy and natural resources industry) are the ones that show a higher commitment to reporting than other sectors that may be seen as wielding less influence.

2.3 Measurement of Corporate Social Investment

Previous studies, used the environmental and social pillars to measure CSI for each corporate. Environmental performance was referred to as the firm's actions that result in resources reduction, emission reduction, and product innovation, which eventually benefit the environment. Social Investment on the other hand was referred to as the firm's product manufacturing responsibility, its effect to the public, respect human rights, how it accommodate diversity, provision of training and development to the staff, its contribution towards health and safety of the employees, and employment quality (Dhaliwal et al., 2012; Eccles et al., 2011; Peiris & Evans, 2010).

Measuring Corporate Social Investment is based on indicators developed by several researchers. One of these indicators is designed by Bremer et al. (2006). According to this indicator, Corporate Social Investment is measured using three parameters namely, employees, environment and community. Companies have responsibilities to its own employees. These responsibilities have five measures i.e. safety and health systems, employee training and development systems, equal opportunities policies, good communication systems, and job creation and job safety systems for employees. These five measures is scored over 15. There are also three environmental parameters made up of environmental management, environmental policy, and environmental commentary systems. The environmental parameters are scored over 12. The third criterion contains only being accountable to the community that has 3 points. The total score that the company’s social investment can be scored is equals to 30 points.

Social investment measures a company's capacity to generate trust and loyalty toward its workforce, making and contributing toward positive changes toward its customers and the society in general. CSI is a reflection of the company's reputation (Orlitzky et al., 2003).

2.4 Corporate financial performance (CFP).

Corporate financial performance (CFP) is defined as the achievement of an organization’s objectives (Bourguignon, 1995) or a situation of good productivity and efficiency (Niculescu, 2003). Lorino (2004) defined corporate financial performance as anything that contributes to make better the value cost couple and not only which contributes to decrease of cost or increase of value.

It may look as a simple task to measure financial performance, but it has specific complications. Many scholars have used market measures (Alexander & Buchholz, 1978; Vance, 1975). Majority of scholars used market, survey measurements and accounting indicators as the three fundamentals to measure firm’s financial performance (Orlitzky et al., 2003). Researchers such as Graves, Cochran and Wood have utilised both market and accounting indicators to measure firm’s financial performance (McGuire et al., 1988).A firm s financial performance may be evaluated using these two measures that represent differing perspectives on evaluating financial performance, each of them has its own different theoretical implications and each may be subjected to particular bias (Hillman & Keim, 2001).

Accounting indicators measures the previous financial evidence of the corporates. Various scholars considered using return on asset (RAO) when measuring firm's financial performance. The other accounting indicators preferred after RAO is return on equity (ROE), followed by sales growth, return on revenue ware lastly used. Constructed from the approach of the previous scholars it is possible that the current and the future researchers will desire to use return on asset when measuring firm's financial performance. The market measures are forward considerations and directions that the corporates have to consider when making decisions. Market measures how the corporates are performing in the current and future market (McGuire et al., 1986).

Corporate Social Investment (CSI) and share price.

Firms with effective social investment is capable to accessing financial resources from shareholders who are attracted to firm's with social investments engagements, which result to increase the return on share price (Porter Kramer ,2006). Porter and Kramer (2006), highlight that the corporate social investment initiatives are viewed as a source of competitive advantage and a tool of enhancing financial performance. Stockholders react satisfactorily towards the stock prices of firm's with corporate social investment strategy (Falck & Heblich, 2007). Shareholders value corporate social investment because they believe that firms in the process of taking care of their many different stakeholders it may actually attract shareholders that will end up buying their stock and thus increasing share returns (Stout, 2012).

Companies practice CSI to meet and satisfy their primary needs of improving their financial performance while portraying themselves as part of the society. Firms which engage in CSI activities have the advantages of entering new markets, attracting cheap and competitive labour, building their brand name and most importantly, growing revenues. These advantages maximise shareholder prices in terms of performance of company shares in the market and overall firm growth, and earnings per share (Bowen, 1953).

Shareholders always value firms with corporate social investment plans, because these firms are perceived as social, environmental and legal compliance corporates. Analysts regard green technology or new environment friendly practices such as waste water treatment as important corporate contributions to the long term growth. Incorporating social investment in firm's plans enhances firm's marketing campaign, will improve firm's brand image and allow the firm another opportunity to increase its relative market share (Carroll & Shabana, 2010, Maon et al., 2009).

Corporate Social investment (CSI) and turnover

Firms with corporate social investment repetition share a special relationship with outside stakeholders. Both inside and outside stakeholder contribute towards success of the firm when it comes to profit generation and guides firms to develop new products or new services. Consumers react positively to new products and services of firms with social investment strategy (Choi & Wang, 2009). Benabou et al., (2010), have shown that corporate social investment represents a more efficient form of connecting with key investors who see potential of growth and looking to acquire return on their investment in the firm. Firm's social investment strategy have potential to grow market share and possibility increase profit via social investment acts. Porter and Kramer (2006) emphasise that when a company willingly invest in the society is not a cost, a constraint, or the right thing to do but is a source of competitive advantage. Studies in Kenya have proved that there is a positive linkage between CSI and firm profitability. Okoth (2012), during his "study on effect of CSR on financial performance of commercial banks in Kenya", he came to conclusion that CSR has an outcome on ROA and ROE.

Stakeholders regard firms with corporate social investment strategy as a symbol of good reputation. Support from various stakeholders improves firm's revenues. Through CSI a firm is expected to gain new entry into unpredictable markets, manage to stay competitive, manage to maintain its customers, and maintain a better brand image in the eyes and heart of its customers, apart from increased revenue (Bowman & Haire, 1975). Economically, the benefit of CSI programmes is an increase in company revenue (Orlitzky et al., 2003). The benefits of corporates social investment in a firm's fiscals were not observed immediately. The will start to notice improvement sales revenue after few years of continuous social investment act (Blackburn et at., 1994). Researchers revealed that it takes a period of one year to start detecting the fiscal improvement after an active social investment acts (Callan et al., 2009).

Corporate social investment (CSI) and return on equity (ROE)

ROE was used by some researchers to test the connection between corporate social investment and fiscal presentation, because ROE usage was very important. ROE is one of the accounting indicators which provide clear information about firm's fiscal performance (Poddi, et al., 2009). Return on equity as an indicator is used to measure a firm's overall economic health within a given time period and can also be used as a tool for comparison of similar firms in the same industry or to compare industries or sectors in aggregation. ROE measures the performance of the firm relative to shareholder investment.

Companies with good social disclosure tend to have a positive correlation with ROE. It is stated that social performance reporting has a positive effect on economic performance that shows in good company profitability (ROE) (Bowman, 1975). Corporates that engage in environmental spending can improve financial performance, and this improvement is seen in ROA and ROE values. Companies offering a medium amount of resources to CSI reported highest ROE indicating, an inverted “U” shape relationship between corporate social investment and firm's fiscal performance Efforts to maintain and improve ROA and ROE are done with supporting people (Bowman & Haire, 1975). The size of a company can be a factor, since implementation of CSI strategy and firm size are crucial in determining the ROE of a firm (Carmen-Pilar, Rosa & Lisa, 2011).

Corporate social investment is an indirect response by a firm, to the demands that are made by the external stakeholders about generic social concerns or the firm's operations. (McWilliams et al., 2006) indicate a possibility of this groups withdrawing the support they were giving, without CSR activities, given the growing importance of social investing and fund manager's quest for investment with a conscience. Shareholders are sensitive to the announcement of eco-harmful corporate behaviour and eco-friendly corporate initiatives. When companies that adopt social investment policies are more profitable, the very social responsibility investments will provide for and motivate businesses to increase investments (Pava, 2008).

2.5 Stakeholder Approach to Corporate Governance

Studies questioning the link between Corporate Social Investment and financial performance of a company have focused on different frameworks being stakeholder theory and shareholder theory (Deegan, 2002). Stakeholder theory is mostly used to support CSI plans than shareholder theory (Phillips & Freeman, 2008). The philosophy of stakeholder model is connected to the literature of corporate sustainability and social investment concept. The company is connecting with society through stakeholder theory (Clarkson, 1995; Harrison & Freeman, 1999; Mintzberg, 1983). Stakeholders theory has both moral and profit creation implications (Mitchel & Angle, 1997). Stakeholders in this perception can also be referred to groups, individuals, employees, customers that can be positively or negatively be affected by a company's operational activities (Van Dyk & Marx, 2011).

Firms have a value to protect, the value of a firm is not only perceived on financial performance (Freeman, 1984). Firms in South Africa uses stakeholders models, this is a strategy to law compliance that create and strengthens firm's value and contributes towards successful firm and provide economic stability. Stakeholder model serve the interest of the stakeholder and shareholders which will create additional value for a firm as time goes on (Campbell, 2007; Freeman, 1984; Freeman, Harrison & Wicks, 2009). Most empirical studies in the matter of corporate social investment and corporate fiscal performance have utilized stakeholder's performance as independent variable and fiscal performance as the dependent variable (Berman et al., 1999; Choi & Wang, 2009; Hillman & Keim, 2001). Those firms that are applying stakeholder's theory are capable to preserve support and have strong competitive benefit (Friedman, 1970). There is a positive relationship between stakeholder-oriented management and firm performance, which was measured in terms of financial returns (Berman et al., 1999; Choi & Wang, 2009; Hillman & Keim, 2001).

The requirement from corporates has shifted beyond just getting shareholder value. Stakeholder theory is also part and parcel of corporate governance. Today's socially investment companies are lauded for their involvement in the issues of all stakeholders, the community, and also the environment. There is a general view that the government alone cannot manage the multifarious needs of the modern globalisation society, public and private businesses have to form a partnership in order to balance the interest of stakeholders with profit requirements of shareholders (Carroll, 1979).

Effective stakeholder model is judged based on the quality connection between firm and employees, public, suppliers and the government. Firm's top management should make sure that the firm is conducting its products operations in an honest and harmless fashion, make sure that's the firm is taking responsibilities for its actions. Top management should not forget to engage in proper sustainability reporting and as the same time make profit for the company (Berman et al., 1999).

Stakeholders' interest in Corporate Social Investment reporting

A valuable relationship between a firm and stakeholders is built over corporate social investment. Firm with social investment strategy has a higher chances to grow its fiscal presentation over time. Even if social investment is good on certain occasions, financial performance will be disadvantaged, as it involves money to incorporate social investment in corporate strategy, however if a firm is likely to experience a fragile relationship with its stakeholders is it inconsistently conveys deprived social presentation (Orlitzky et al., 2003; Roman et al., 1999). The reviews of Choi et al. (2009) suggest more positive than negative results. Corporate social investment does not only result in improved fiscal performance, it also one proven method to reduce advertising costs (Louis et al., 1982). CSI can improve corporate reputation and it can also lower the financial risk, this will imply that such corporates are fewer probability to go under solvency as compared to firms without social investment strategy. Corporate social investment is directly connected to firm's fiscal performance (Waddock & Graves, 1998). Firms with active corporate social investment plans show growth in profit (Bennett, 1999).

Shareholders and stakeholders have diverse interests from the company. Corporates top managers should balance the corporate's wealth and achieve the concerns of the stakeholders but not neglecting the interest of the shareholders which in profit maximisation. Stakeholders value social investment (Maon et al., 2009). Corporate management should branch to SCI not only because law says so. Top managers should not only focus on making profit in the firms, they have a duty to display morals and value the stakeholders (Carroll & Shabana, 2010).

A good, planned corporate social investment policy in conjunction with the applicable behaviour of the corporate's top management increases firm's financial effectiveness. It is in a good advantage to the shareholder when company's financial performance increases, while it also benefits the shareholders with social investment welfares. Corporate management is focusing on how to prioritise and address stakeholder interests without reducing corporate profitability (Dobers, 2009; Maon et al., 2009). Corporate social investment financial budget be monitored time after time to make sure that social investment does not compromise the firm's financial sustainability (Carroll & Shabana, 2010). There must be an occasional evaluation; annual reports containing the full disclosure on corporate financial report and social cost or benefit analysis of CSI activities. Companies with social investment gain trust from its stakeholders, it is also a sign of transparency and good governance (Maon et al., 2009).

2.6 Board of Directors and Managerial Implementation of CSI

It is recommended that majority of board directors should be non-executive independent directors. Selecting majority outside members in the board will provide more resources, valuable updated valid information to the board. Outside members will be more sensitive to the society needs (Ibrahim & Angelidis, 1994; Ibrahim et., 2003). Composition of board of directors is an important forecaster of a company that is incorporating social investment in corporate's strategy. Furthermore, outside directors have better understanding and knowledge of the stakeholders needs (Johnson & Greening, 1999; Zahra et al., 1993). King committee on governance of 2009 state that "the board is the focal point of the corporate governance structure in the company and is the link between the stakeholders and the company".

South African's corporate board of directors play an important role in the company. They need to make sure that the company complies with corporate code of conducts. They should make sure that the company is financially stable and it benefits the society from its wealth (Scott, 2001). One of the boards of director's responsibilities is to make sure that viability of a company is maintained over a long term, by maximising profitability for shareholders and meeting the interests of both the company and the interest groups (Coombs & Gilley, 2005). It is the responsibility of the board to decide for the company to implement particular strategies and implementation of CSI policies which is related to law compliance and increase profit of the company. This decision by the board should take account to the needs of company's stakeholders (Ingley et al., 2011; Mill, 2006). The board should ensure that the company maintains a healthy relationship with the stakeholders. The board should make sure that the stakeholders have confidence in the company and trust in the company (King III, 2009).

The present of stakeholders in board of directors will assist into corporate decision-making, they will monitor smooth running of the whole board in addressing the issues of the society, audit, compensation, executive or nomination. Majority on board committee should mainly of stakeholders (Luona & Goodstein, 1999). Corporates with a higher percentage of women on their board exhibit heightened strategic capabilities Corporate Social Responsibility (Post et al. 2011; Walls et al. 2012). However, the linkage of board composition and CSI is not always statistically significant (Galbreath 2011; Stanwick & Stanwick 1998). According to King III of 2009, "it is the responsibility of board of directors to make sure that the company as a responsible corporate citizen does not undermine the sustainability of its social and nature environments, but rather protects and enhances them". Therefore, the effect of board composition on corporate social investment will be from the angle of stakeholder approach.

The role, views and ideas of corporates top management are very critical for social investment strategy implementation. It is believed that the main role of corporate top management is to maximise the corporate's profit which is to benefit the shareholders (Barney, 2011). Social investment is a broad concept that reject the wrong perception about corporate top managers being the profit makers (Maon et al., 2009). It is important for managers to explain the values and benefits that social investment bring to the corporate. The employees will not know the relationship between CSI business operations without corporate managerial guidance (Gupta, 2012). There should be a clearly defined statement emphasizing the essential for a firm's missions and morals to be associated with corporate social investment (Maon et al., 2009). According Maon et al., (2009) "A strong leader might create a vision for the future aligned with the demands from the environment; this leader also must communicate the vision in an inspiring way so that employees act accordingly". Corporate top managers may decide to practice other different strategies to implement social investment initiatives in corporate operations (Maon et al., 2009). Firms with social investment strategy have advantages to gain better fiscal performance over those who do not effectively implementing CSI (Alexander & Buchholz, 1982).

2.7 Corporate Governance and Disclosure

Corporates are controlled and commanded by law to practice good corporate governance. These systems are there to separate the powers of ownership from the shareholders and the society (Cadbury, 2000). Globally Corporate Sustainability Disclosure (CSD) has been gradually increasing since the end of the year 2000. The global issue of sustainability urges all corporate organisations to be transparent by disclosing those sustainability activities that may affect the earth and society at large. According to KPMG (2008), 80 percent of the globally large companies (G250) now disclose sustainability reports.

Governance principles for South Africa King III (2009) encourages the largest firms listed on the Johannesburg Stock Exchange to comply with a broad range of stakeholder and social investment issues, such as advancing black economic empowerment, encouraging positive environmental policies, addressing health and safety, and fighting HIV/Aids (Ntim & Soobaroyen, 2013). Furthermore, it is concluded that social investment lead to better firm's economic performance which is forming part and parcel of good firm value, firm strength and also a signal of good governance (Habisch et al., 2005).

According to King III (2009), the board is the focal point of corporate governance. It is the responsibility of board of directors to ensure that the company comply with the rules and regulations of the state rather than making profit. Firms can maintain commercial, ecological and public sustainability because more and more investors are attracted to invest in those companies that have social investment strategy in their functioning plans. Corporate social investment call for non-independency board of directors with knowledge and skill to know the benefit of investing in the community voluntarily. Firms should be composed with majority of self-governing directors to forward the interests of stakeholders than the interest of the shareholders (Andini et al., 2008).

2.8 Reasons for Companies to Incorporate Social Investment

Economic Intelligence Unit 2008 appraisal says good corporate citizenship behaviour is no longer an option these days. Corporation managers accept that CSI is connected to profitability and these cannot be separated (Carroll & Shabana, 2010). Society has knowledge and information about good corporate governance, therefore the society has investment expectations from the listed firms (Carroll & Shabana, 2010; Maon et al., 2009). Furthermore, Carroll and Shabana said “incorporating CSI initiatives into a firm’s marketing campaign, enhances corporate image and allows the firm another avenue to increase relative market share”. Carroll and Shabana (2010), and Smith (2011) believe that successful firms have to embrace corporate social investment because it provide a strong competitive advantages, boost the firm’s image, gain respect and attract more investors.

Smith (2011) said “firms with good social responsibility may attract better employees and increase current employees‟ motivation, morale, commitment, and loyalty to the firm”. This can also help in finding and also keeping the most skilled employees in the firm.

According to Lee (2008), “CSI was not taken seriously and sometimes mocked by business firms before the late 1970s”. Companies took a new approach toward CSI in acting to new legislations that were created by regulatory government agencies (Carroll, 1991). South African commandments provide incentive to corporates who are voluntarily sharing their wealth with the society (Eilbirt & Parket, 1975). Government regulations and industrial codes of conduct require that companies must increasingly address sustainability (Epstein et al., 2014). Revenues can be increased through increased sales due to improved corporate reputation (Epstein, Marc, & Adriana, 2014). In Kuljian (2001), Nelson Mandela said "We must appreciate that all over the world, right down the centuries, there have been great religions that have encouraged the idea of giving as part of fighting poverty and of promoting the equality of human beings irrespective of their background, and their political beliefs. That spirit has lived not only in the world, but in South Africa as well." On this statement the former South Africa president Nelson Mandela was making a request to the corporate to improve living conditions of the poor. He used the term "charity" have similar meanings to the distribution of "gifts" from those who have to those who do not have.

Firms with social investment have an opportunity to display the brand to the wider dimensions of stakeholders, and create an opportunity in which a firm can increase relative market share (Carroll & Shabane, 2010; Smith, 2011). KPMG (2011) emphasised that the following, amongst others, are the advantages of Corporate Investment: It drives innovation and promotes learning, which helps companies grow their business and increase their organisation's value; Corporate Investment activities impact and benefit the business in areas such as cost savings and new business opportunities; Corporate Investment reporting provides financial value and drives innovation; and lastly CSI assists in direct cost savings and enhanced reputation in the market which promote the financial value.

Waddock and Graves (1997) study indicates the following benefits as the advantages of CSI amongst others: Meeting stakeholder expectations before they become problematic indicating a proactive attention to issues that otherwise might cause problems or litigation in the future. Socially responsible companies brand image appears to be more enhanced and they have a positive reputation among consumers. CSI provides an opportunity for a firm to attract more accomplished employees and business partners. Socially responsible companies also face a reduced risk of negative rare events. Companies that adopt the CSI principles are more transparent and have less risk of undesirable incidents such as bribery and corruption. CSI minimises the risk of having to recall defective product lines and pay heavy fines for excessive polluting. Mitigates the risk of negative social events, which could damage their reputation and cost millions in information and advertising campaigns or litigation.

However, maintaining good and consistent social investment creativities emanates significant obligation and costs; therefore it is not obvious for one firm to benefit from social investment same as the other who benefited from it. A firm's knowledge intensity is one key in differentiating factor that helps to predict the probabilities to benefit from regularity in social investment (Coff, 1997; Kogut & Zander, 1992).

2.9 The Description of the state of Corporate Investment assurance in South Africa.

Jones and Solomon (2010), IoD (2009a), Naidoo (2009), Simnett et al., (2009), and Marx & Van Dyk (2011) indicate that no statutory or regulatory requirements for assurance on sustainability reporting currently exist, neither internationally or in South Africa.

Marx & Van Dyk (2011) state that independent assurance of sustainability reporting can be provided by various external parties, ranging from audit firms, specialist consultancies, certification bodies, academic institutions to individuals.

Marx & Van Dyk (2011) continue to state that the status and assurance practices of sustainability reporting in South Africa were empirically tested by means of analysing the content of the sustainability reports of the companies selected for review.

Marx & Van Dyk (2011) wrote that independent external assurance of sustainability reporting in South Africa is limited, and there is also a great deal of variability in the contents of assurance statements where they are provided. With the increased focus on sustainability and increasing demands for corporate accountability, many companies are now increasing the scope of content reported, such as reporting not only their financial results to their stakeholders, but also their sustainability performance about their social, environmental and governance issues.

2.10 Dimensions of Corporate Social Investment

Given that there are many ways in which corporates define and organise their social investment activities. The collective way used in explaining corporate social investment was the use of three-way Bottommost Route structure (Shnayder et al., 2015). The three-way routes combine the firm's effects to the people, planet and the profit which occasionally is also stated to as the 3P‟s. The first "P" discusses how corporates communicate with the people about the issues that affect labour force. This involves corporate's ethics when it comes to issues such as child labour in the chains supply and corporate's contributions in changing of the people's lives to better. The second "P" represent planet which involves the effects of corporate products production methods which should be harmless to the environment. The third "P" represents the profit. Corporates should be financially stable to be able to include social investment in the financial plans. The three-way Bottommost Route concept was created by economist John Elkington in the mid-1990s and has then being utilised to achieve goals of corporate social investment strategy and in developing sustainability (Shnayder et al., 2015).

The 3P‟s have also been discussed as social, environmental and financial dimensions of a company's CSR performance (Slaper & Hall, 2011). These three dimensions should, if properly evaluated, cover corporate sustainability and capital growth and meet the needs of a company's direct and indirect stakeholders (Dyllick & Hockerts, 2002).

Social dimension

Growing pressure on corporates to continuously manage their social investment has forced the corporate to offer more time and resources on CSI activities in order to meet stakeholder expectations (Malsch, 2012; González-Rodríguez et al., 2015). Corporates have become keen to promote its sustainable activities for marketing purposes. Corporates are broadening the interpretation of the company's CSI activities within the three dimensions, as companies nowadays need to view their CSI activities in a long-term perspective (Dyllick & Hockerts, 2002).

Mohr et al., (2001) claim that there is pressure on companies to participate in solving problems related to its communities, such as donating to charities or actions to protect the environment, is increasing. Mohr et al. (2001) study's results show that the majority of surveyed consumers already consider rewarding companies working actively with charitable giving and humanity.

Environmental dimension

According to Hart (1995), Human's activities that have a negative impact on the environment have been frequently discussed in the global forum for the past several decades". The human activities in consuming of natural resources have sharply increases over the last 40 years; as a consequence, it has brought under great scrutiny the environmental impact of companies (Hart, 1995). Corporates should assess the impact of its products production operation before they start to operate, because some operations actions can cause harm to the environment (Chatterji et al., 2009).

In the beginning of the concept "corporate social investment" firms where only concentrating on being good to the community, but as years pass by, it shifted more towards the corporation's environmental and financial responsibilities (Flammer, 2013). The perception of social investment is progressively developing and it is becoming gradually significant for the success of many corporates (Peloza et al., 2012). Corporates with social investment strategy to avoid negative criticism, companies must properly handle their environmental responsibilities (Heikkurinen & Ketola, 2011).

According to Flammer (2013), "shareholders often react positively to a company's eco-friendly initiatives and negatively towards those that in some form affect the environment in a destructive way". Corporate who are very conscious to the environment gets respect and livelihood from stakeholders than corporate who are not environmental conscious. Environmental conscious cooperates are valued higher as compared to corporates who are less conscious to the environment (Flammer, 2013).

Financial dimension

Stakeholders are aware of their rights and obligations associated South African's corporate which lead to increase in demand for corporate to comply and offer assistance to the Government and stakeholders at large (González-Rodríguez et al., 2015; Malsch, 2012). There are numerous studies done to evaluate the relationship between CSI and CFP. These studies have shown various and sometimes contrasting results where some researchers observed positive, while others found the linkage to be negative, while others did not observe financial gain or lose on corporates with social investment (Cavaco & Crifo, 2014). Many researchers suggested that results are mixed within this field of study which are caused by different approaches, methodology and selection of variables (Girerd et al., 2013).

There are four dissimilar circumstances involved in the connection between corporate social investment and how the corporate perform financially after the application of social investment strategy. The first circumstance is win-win situation whereby there is a simultaneous increase in corporate social investment contribution and increase in firm's fiscal performance, with or without governmental or ethical input towards the activities. The second circumstance is lose-lose situation, this is a simultaneous drop in corporate social investment result to a poor corporate fiscal performance. The Government mediation is probably needed neutralize the undesirable situation experienced by the firm and its stakeholders. The third circumstance explains a situation where there is an increases in financial performance and a decrease in corporate social investment. However the firm will be discredited by the stakeholders if the production operations do not protect the environment and if the firm does not contribute towards social sustainability while the profit keeps on increasing. The fourth and last circumstance is when there is a decrease in financial performance accompanied by an increase in corporate social investment contributions. These situations generate a struggle between firm's top management who came with social investment and shareholders who are expecting positive returns on their investments. The same gestures of CSI investments may also be the cause of the reduced financial performance because significant expenditure is required which may result in short term economic loss (Windsor, 2006).

2.11 Influential factors to CSI

Firm size is one of the factors when considering social investment commitments. Corporates spend huge amount of money, and time in planning to achieve the needs of shareholders and stakeholders equally. Therefore, it will be challenging for small firms to participate in corporate social investment. Larger firms, because of their size have the ability to contribute to toward social investment behaviour more than minor firms (Waddock and Graves, 1997). The issue of company size being either an influential variable or not to the relationship between CSI and financial performance remains center of debate in the research community (Orlitzky, 2001). Hence King III (2009) stipulates that listed companies must incorporate social investments in financial budgets. Business culture can influence the top management decisions to incorporate social investment in the firm's plans.

At times corporate will predict the future macroeconomic risk which will affect the firm's financials in future, this expose to risks will affect how firm's participation in social investment (McWilliams & Siegel, 2001). According to Griffin and Mahon (1997), "reach a similar conclusion and reiterate the suggestion that research investigating the CSR and financial performance relationship should separate companies by industry because of the dissimilarity in environmental and social related concerns, stakeholder engagement and activism".

2.12 Corporate Social Investment and Corporate Financial Performance.

Evaluation of linkage between corporate social investments to corporate financial performance has been contacted by numerous researchers over the past decades. Margolis and Walsh (2003) reported that there were one hundred and twenty-two empirical studies published from 1971 to 2001 examining the relationship of corporate social investment to financial performance. It is further mentioned that the initial study was issued in 1971 through Narver. In most practical studies of connection between corporate social investment and fiscal performance researchers defined both concepts. However corporate social investment had different definition, but those definitions shared few common phrases and common meaning. It was not challenging for researchers to choose accounting indicator to represent financial performance.

Choi and Wang (2009) alluded that the most used accounting indicator preferred was return on assets. Aglee at al. (1999) said other scholars preferred to pay attention on return on equity as a firm's financial indicator. Many more accounting indicators such as return on sales and operating margin were used when measuring the linkage of corporate social investment and firm's financial performance (Choi & Wang, 2009; Rose, 2007).

Created on literature review, the connection between CSI and CFP could either be positive, negative or impartial. Griffin and Mahon (1997), evaluated studies on probing the relationship between CSI and CFP. The review used a total of 51 articles. 16 studies in the 1970s, 27 in the 1980s, and 8 in the1990s. Griffin and Mahon (1997) in their work had mapped the nature of the direction of this relationship between CSI and CFP for the given time periods.

From 1970, sixteen (16) studies under the topic of examining the link between corporate social investment and firm's fiscal performance were reviewed. From these sixteen studies, twelve (12) showed affirmative link between corporate social investment and firm's fiscal performance. One (1) study revealed negative link between corporate social investment and firm's financial performance. The remaining four (4) studies in revealed inconclusive outcomes. In 1980, there were twenty-seven (27) studies conducted, fourteen (14) of the twenty-seven studies showed a positive link between corporate social investment and firm's fiscal performance. Negative results were supported by seventeen (17) studies. Inconclusive findings were found in five studies. For 1990s studies, seven (7) of the eight (8) studies showed positive direction relationships. Negative results were supported by three (3) studies. There was no negative finding in 1990s (Griffin & Mahon, 1997).

Long period study was conducted by Margolis and Walsh. The study's period was from 1972 to 2002 with one hundred and twenty-seven studies revised. From one hundred and twenty-seven studies, seventy (70) of those showed a positive link between corporate social investment and firm's fiscal performance. Seven studies had no linkage amongst corporate social investment and firm's financial performance, twenty-eight studies supported inconclusive findings, and last the remaining 24 had mixed outcome (Margolis et al., 2003).

Looking at previous studies, which examined 34 reviews of studies on CSI and corporate financial performance linkage, 64% of these studies were found by Van Beurden and Gössling (2008), to be indicating a positive association. Positive link between corporate investment as well as firm's fiscal performance was established by Alafi and Hasoneh (2012). However the findings were concluded on using firms in well-developed European countries (Galbreath & Shum, 2012). Researchers cannot predict that results for South Africa would be similar to those in western countries because South Africa is a developing country.

Negative link between corporate social investment and firm's fiscal performance was found using a liner model. The study used returns on investments as a firm's financial performance indicators. A study using a non-linear model to examine the link between corporate social investment and firm's fiscal performance argue that corporates do not have financial benefit at the early stage of social investment. The study further stated that after a short period of time the financial benefits are neutral, however after years of contributions the firm gain large market share, get more interested investors to invest in the firm with potential to grow and good record of social investment initiatives. The study used return on assets and return on capital as financial performance indicators. This model was simplified as U-shaped linkage between corporate social investment and firm's fiscal performance. These findings were the first in the history of studies examining the connection between corporate social investment and firm's financial performance (Barnett and Salomon, 2012). The finding suggests existence of a certain critical point of CSI investment which must be crossed before rewards of engaging in CSI can be reaped. In the beginning extra CSI engagement will affect the company s profitability negatively, but at some point the effect will reverse and profitability will begin to be served positively by additional CSI engagement (Barnett and Salomon, 2012).

Though regardless of these numerous studies there is a lack of similarity in the results. Wright and Ferris (1997) revealed that there is negative relationship between a firm that exercise social investment and how the firm perform financially; the same year Posnikoff (1997) contradicted the findings of. Two years later study of Teoh et al., (1999) concluded by saying there is no link between CSI and fiscal presentation. The linkage of corporate social investment and firm's fiscal performance have been examined by numerous scholar previously, nevertheless these studies never presented matching outcomes (Margolis & Walsh, 2003; Orlitzky et al., 2003; Roman et al., 1999). Conclusions from other scholars about link between firms contributing to social investment and firm's financial performance were negative (Wright & Ferris, 1997), while a few scholars concluded that the relationship between corporate social investment and firm's fiscal presentation is impartial (McWilliams & Siegel, 2000). On the other hand, mixed results were also considered by some studies between CSI and CFP.

Three different descriptions to the connection between corporate social investment and firm's financial performance have been established in previous research (Waddock and Graves, 1997). The first description was when there is a positive financial befit when a firm is incorporating social investment, the second description is whereby there is no relations link between corporate social investment and firm's fiscal performance. The last description is when the positive rather negative link cannot be resolute (Waddock and Graves 1997).

Many arguments in research do exist about how corporate social investments affect firm's financial outcomes. Most of the studies do agree with statement that says good relationships between firm and stakeholders can be built through high level of social investment, and fiscal presentation will in turn be enhanced (Hillman & Keim, 2001; Ruf et al., 2001; Russo & Fouts, 1997). Employees of a company with high level of social investment strategy perceive the firm as that with high levels or virtue and moral worth. Corporate social investment increase moral of the employees. Studies have revealed that employees are more loyal and satisfied to work in a firm with social investment repetition (Dutton et al., 1994).

The assumption of Barnett and Salomon (2006, 2012) report that companies investing more financial resources in CSI are those that have a higher CSP score in the index, compared to firms with a lower CSP. The assumption of Barnett and Salomon (2006, 2012) report that companies investing more financial resources in social investment are those that have a higher corporate social act score in the index. Most previous scholars have only been focusing on analysing the direct link of corporate social investment and firm fiscal presentation, whereas some scholars claim that this action of testing only the direct relation between CSI and firm performance will help obscure many of the factors carrying ability to influence this relationship and may affect the reliability of the results (Margolis & Walsh, 2003). These scholars also suggest that for the study to obtain reliable results interconnected variables such as consumer satisfaction, firm's reputation and sustainable competitive improvement should be included.

2.13 Results from previous literature on Corporate Social Investment and Financial Performance

As revealed from the literature, one group of studies supports implementation of corporate social investment plans and concluded that it improved firm's image, it boost firm's fiscal performance. A second group of studies opposes implementation of corporate social investment plans, reasons being social investment decreases firm's revenue in addition of high expenditures and huge responsibilities. The third collection of studies revealed neutral link between corporate social investment and fiscal performance. These scholars with neutral outcomes explain corporate social investment as just a good thing to do for charity without financial benefits to the firm doing it. The following section presents a discussion of these divergent results.

Literatures with positive relationship between CSI and CFP

According to Friedman (2007), "the only duty of business is to generate profit for its shareholders provided they act within the rules of the game by paying tax and obeying the rules and laws of the operating environment". However, there were arguments that incorporating CSI in a company's strategies leads to competitive advantage, because increasing CSI directly improves stakeholder relationship and reduces the firm's transaction costs (Jones, 1995). Surroca et al., (2010) says social investment is directly proportional to profitability, and firm's high profit is from social investment strategy. Firms with corporate social investment have opportunity and high success rate to negotiate products and service price increment (Fombrun et al., 2000). The eventual result of the strategy is higher net financial performance. Most literature reviews have reported a positive link between corporate social investment and firm's fiscal performance (Flammer, 2013; Goll & Rasheed, 2004; Tsoutsoura, 2004). It is believed that valuable firm stakeholder relations are produced by good social investment and this also helps the firm to gain superior stakeholder provision and collaboration (Hillman & Keim, 2001; Ruf et al., 2001; Russo & Fouts, 1997).

This means that there are a few studies with a neutral relationship and fewer with negative results of relationship between CSI and CFP. However, this does not give the researchers a right to say this study will give us positive, negative or inconclusive results. From 109 studies reviewed on the topic examining the link among corporate social investment and fiscal performance, a numbers of 54 studies revealed a positive link between corporate social investment and firm's fiscal performance. Outcomes of 7 studies found no connection among social investment act and fiscal performance. 20 of 109 studies revealed mix results and the last 28 concluded that corporate social investment does not make any different to firm's fiscals (Margolis & Walsh, 2003). Boaventura et al., (2012) reported similar findings in their own meta-analysis with 65.5% of the studies reviewed reporting a positive connection between social investment acts and firm's fiscal presentation. These studies generally were found to be supporting the predominance of positive direct relationship between CSI and CFP, as has been explained by many meta-analyses.

A systematic review of 167 studies from the year 1972 to 2007 revealed a positive connection between corporate social investment and firm's fiscal performance due to increased market-based profit (Margolis et al., 2009). Public will often pay attention to the brand because of the contribution made by a company. Companies regarded as socially responsible investors can also benefit from its reputation and increased ability to attract capital and trading partners. More financial performance gain is expect in developed countries than in developing countries (Campbell, 2007). According to Campbell's (2007), hypothesis the relationship between CSI and CFP is stronger for firms from developed economies than from developing economies. Corporate social investment can also serve as firm's product and services advisement which result in a positive consumer respond and enhance firm's asset growth (Gardberg et al., 2006). Higher profits and thus higher shareholder value are a direct consequence of good CSI performance, as a strategic investment. Jensen (2001) calls this "enlightened value maximisation".

Tsoutsoura (2004) used return of assets, returns on equity as well as returns on returns on sales to evaluate the connection among corporate social investment and fiscal performance. For social investment, the study used firms that take part in “Domini 400 social index”. Using regressions form 422 firms, integrated financial report was observed from the year 1999 to the year 2000. Tsoutsoura revealed a link between corporate social investment and firm’s fiscals.

Study of Hill et al., (2007) using market-based measures to question the connection of corporate social investment to firm’s fiscal performance revealed a positive connection. Alafi and Hasoneh (2012) also publicized a positive link among CSI and firm’s financial performance. Studies outside South Africa have also point out the financial benefit of corporate social investment to firms. Study in Taiwanese questioning the connection among corporate social investment and fiscal performance have revealed a positive link (Lin et al., 2009). Another studies in Australian firm’s found positive connection between corporate social investment and fiscal performance Galbreath (2008). Usually the positive association results are initiated on arguments from the stakeholder’s observation as was explained by Bird at el., (2007).

Factors contributing towards these positive relationships between CSI and CFP

From the literatures, consumers are more pleased when firms provide social needs to the society. Firms with well-developed social activities are specified as firms with dignity and good reputation, these firms end up gaining more competitive advantages over nonsocial investment firms. All these non-financial benefit can be translated to a financial benefit for the firm (Black et al., 2009). Potential shareholders are more attracted to firms with social investment acts, a well composed board of directors will ensure that the firms connect itself with external and internal stakeholders. Stakeholder feels a special connection when firms are able to respond well the society needs, respecting the environment and good corporate contacts (McWilliams & Siegel, 2001).

Increased market share, increased number of shareholders, satisfied internal and external stakeholders, good firm reputation, competitive advantages, loyal consumers can be translated to firm value converted to firm’s fiscal improvement (Orlitzky et al., 2003).

Literature with negative relationship between CSI and CFP

Previous researchers hypothesised that the connection among corporate social investment and firm's fiscal performance is non-valid (Brammer et al., 2008). The explanations for non-valid outcomes it was based on the fact that investing in social activities or environmental policies sustain upfront costs. Firm's financial recovery after social investment is not certain and it is likely to weaken corporate financial profitability. According to Friedman (2007), corporate social participation produces costs greater than the profits and this causes a deterioration of financial and economic indicators. In simple words, the costs of CSI cause financial disadvantages for a company. It is unnecessary for companies to participate in social investment because participating in such it will just add unnecessary costs that can be avoided in order to preserve companies from competitive disadvantages (Barnett, 2006). Jensen, (2001) says "It is not the role of companies to address societal problems; rather these problems should be left to governments and public sector organisations".

Lopez et al. (2007) analysed the relationship between CSI and fiscal performance using accounting indicator profit/loss before taxes across the years 2002-2004 and emanated with negative connection. The study measuring CFP used Dow Jones Sustainability Index (DJSI) with a sample made up of 110 European companies. The study controlled for industry, size, and risk. Behind the 14 findings was the philosophy that says that companies engaging in CSI programmes are at a disadvantage because they are experiencing unnecessary and avoidable costs. Limitations of this study included its quality of measuring and analysing only the short-run relationship between CSI and financial performance, concluding that "there is a negative effect of sustainability practices on performance indicators during the first years in which they are applied". The study suggests a need to perform a long- term research in order to strengthen such a conclusion. Finding a negative correlation between CSI and CFP, although an inconclusive finding as compared to other similar empirical studies, Indicates a need for more current research focusing on this particular topic.

Milton Friedman also have similar results to the Lopez et al., (2007) study. Milton Friedman is an economist and Nobel Prize laureate who argues that CSI and CFP have a potential negative relationship. In his 1970 article in the New York Times, “The Social Responsibility of Business is to Increase its Profits”, Friedman takes a capitalist position and refutes the popular belief that businesses have social responsibilities. Milton Friedman has argued that a “corporation is an artificial person” and cannot therefore have actual responsibilities. Companies deciding to engage in social investment actions may suffer a higher risk of losing support from stakeholders that contribute in enabling them to generate profits, and this cost of lost support may be higher than the gains of social investment activities.

Study done by Joscha et al, (2015) in the topic of “Corporate social responsibility and financial performance: a non-liner and disaggregated approach” using returns on assets and returns on capital to represent firm’s fiscal performance of the study. Joscha’s study make use of all firms recorded in S&P 500 stock market index, with data observed from the year 2007 to 2011. Using the linear exemplary, Joscha did not find significant connection between corporate social investment and firms’ fiscal presentation. However Joscha study revealed U-shape connection among corporate social investment and firm’s fiscal performance. U-shape link between CSI and firm’s fiscal performance mean that the firm will notice fiscal improvement after a convincing social investment commitments. U-shaped outcomes mean that before the firm start to notice increase in fiscals, social investment will first cost the firm.

Teoh et al. (1999) found that there is no relationship between CSI and financial performance. A negative result was also supported by Wright and Ferris (1997). Paten (2002) found a negative relation.

Literature with Inconclusive relationship between CSI and CFP

The results of O’Neill, Saunders and McCarthy (1989) show no linkage between social investment and profit of the company. (McWilliams et al., 2001) have supported the previous studies with inconclusive outcomes when evaluating the linkage of corporate social investment to firm’s fiscal performance. Further studies on social investment and fiscal performance conclude by saying social act has no effect on firm’s financial performance (Brammer & Millington, 2008). Many studies (Cochran and Wood, 1984; Aupperle et al., 1985; McGuire et al., 1988; Waddock and Graves, 1997; McWilliams and Siegel, 2000; Orlitzky et al., 2003; Smith, 2003; & Ortas et al., 2014) affirmed that there is contrast between CSI and CFP; however, there is no conclusion that clarifies the positive, negative or non-existent correlation between CSI and CFP. The reasons for this no conclusive results lie in the imperfections of the studies, such as the omission of important latent variables when formulating the models, or the absence of causality analysis, the lack of consistency in the method used, and lastly by a shortfall in the theory behind the study (Margolis and Walsh, 2003).

Detailed research rooted in the set of clarification to economics pointed out that social investment acts are unnecessarily floating a firm's costs, compromising firm's competitive advantages to its rivalry competitors (Jensen, 2002). According to Friedman (1970), socially responsible corporate performance can be associated with a series of bottom-line benefits. Gray (2006), in his review of studies investigating the relationship between CSI and CFP, had his arguments also pointing to the inconclusive result, furthermore, his argument was also supported by Murray et al. (2006) in their cross section data analysis.

2.14 Summary of chapter two

To the researcher's knowledge and observation, South African companies are actively engaging in contributing towards social, environmental and economic sustainability (Dahlsrud, 2008; McWilliams, et al., 2006). Many different scholars have defined corporate social investment in a miscellaneous ways, up to date there is no common definition of corporate social investment. Corporate social investment can be deliberated as an arrangement to boost the value of the firm, improve and strengthen the connection between a firm and stakeholders, boosting firm's competitive strategy, improving firm's fiscal performance and more vitally as good corporate governance.

Evaluation of linkage between corporate social investments to corporate financial performance has been contacted by numerous researchers over the past decades. The connection between CSI and CFP could either be positive, negative or impartial. Researchers such as Graves, Cochran and Wood have utilised both market and accounting indicators to measure firm's financial performance. Composition of board of directors is an important element to be focused when selecting board member to monitor corporate social investment. This warrant majority outside members who will be more sensitive to the society needs. Corporates are controlled and commanded by law to practice good corporate governance. Good corporate citizenship behaviour is no longer an option these days.

Reading through the literature from many studies, it is possible that the financial performance can be positive, neutral or negative. Corporate social investment promotes the concept that a business has an obligation to do more than just generate a profit for its owners. For any business, corporate social investment can mean embracing a charity or following environmentally- sound practices such as recycling.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter explains the method used to measure the relationship between two variables. In this case one variable will be CSI and other variables will be represented by share price, turnover and return on equity respectfully. Each variable will be tested separately against CSI. Qualitative and Quantitative research concepts are defined, differentiated and choice method to be used in this study is identified and reasons given. Johannesburg-stock exchange FTSE/JSE responsible investment index is the study area, with 61 listed companies as the population. The sample will be 35 companies selected from 61 listed companies. From that top 35 companies, data of 5 companies will be collected based on annual reporting of Social Investment contributions, and drawing financial performance from annual income statements. Data will be analysed using simple regression equation. There are no ethical considerations for this study.

3.2 Design and Method

There are two important elements to develop a research design. Research purpose and research questions are regarded as the preliminary points to develop research design as they contribute toward formulating the aim of the study (Berry & Otley, 2004; Saunders, et al., (2009); Yin, 2012). According to Jonker and Pennink (2010), a research paradigm “is a set of fundamental assumptions and beliefs as to how the world is perceived which then serves as a thinking framework that guides the behaviour of the researcher”. Before conducting a study, it is critical to find out and to have a clear understanding on the research paradigm to be applied. Research paradigm helps to provide directions and ideas on how to conduct a social study, and also helps in understanding of social phenomena (Berry & Otley, 2004; Saunders, et al., (2009); Yin, 2012).

The two main research paradigms are positivism and post positivism. This research used the Positivist paradigm. Positivist researchers are focusing more on obtaining generalisation, called nomothetic (Neuman, 2011). Positivists believe that different researchers conducting a study in the similar realistic problem that produces similar results. This is done by carefully using tests in statistics and also by applying a similar research process in when conducting studies of a large sample (Creswell, 2013). The reason for using the positivist paradigm is that the positivist paradigm method measures the relationship between one variable and another. Research paradigms are important in the accounting literature. Most numerical studies in accounting topics are using positivism paradigm approach (Laughlin, et al., 1995). Positivism approaches seek to identify, measure and evaluate any phenomena and to provide a rational explanation for it (Collis & Hussey, 2013). Since the study is evaluating relationship between CSI and CFP it is practically suitable to use the positivist approach in this study.

Research can be categorised in qualitative or quantitative or both by nature. Qualitative research is mostly on probing researches, it helps to provide clear underlying reasons, views and motivations. Qualitative research is naturally subjective, dealing with fewer tangible aspect of a study which contain attitudes, perception and value. Quantitative research was invented from science of nature to study natural sensations. Quantitative study emphases on gathering and analysing arithmetical data. It focuses on computing the frequency, range, and scale of phenomena (Collis & Hussey, 2013).

This study shall be a case study design. A case study is a research plan which features comprise a focus on the interrelationships that establish the context of a special entity (Mills et al., 2009). Since this study focuses on the association amongst corporate social investment and firm’s fiscal presentation, it is relevant to use multiple corporates to enhance at least a tentative limited generalisation within the sub-set of industry that the companies are chosen from.

This study will use a quantitative method. Quantitative research can be generalised if it employs a larger sample which is representative of the entire population being researched (Ron, 1998). Bryman and Bell (2005) defined quantitative research as “entailing the collection of numerical data and exhibiting the view of relationship between theory and research as deductive, a predilection for natural science approach, and as having an objectivist conception of social reality”. According to Pauline (2014), “Quantitative research is based on the measurement of quantity or amount”. Quantitative data can be re-ordered into numbers, in a formal, objective, systematic process to obtain information and to describe variables and their relationships (Brink & Wood, 1998; Burns & Grove, 1993).

3.3 Study Area

The study area for this study is the Johannesburg Stock Exchange FTSE/JSE Responsible Investment index. The Johannesburg's Stock Exchange (JSE) was established in Johannesburg to facilitate the explosion of trade sparked by the discovery of gold on the Witwatersrand (Bryant, 1987). At the FTSE/JSE is where the listed responsible investment index is found.

3.4 Population

According to Polit and Hungler (1999), population is defined as a combined or totality of all the objects, subjects or members that fit in to a set of specifications. In this study, the population was 61 corporates listed on the FTSE/JSE Responsible Investment Index 2015.

3.5 The Sampling Procedure and Sample

Sampling is the method of choosing a percentage of the inhabitants to symbolize the entire population (LoBiondo & Haber, 1998; Polit & Hungler, 1999). A sample is a subsection of a population nominated to participate in the study, it is a portion of the whole population (Brink, 1996; Polit & Hungler, 1999). The study will use a judgmental or purposive sampling method. Judgement sampling is a non-probability sampling method and it occurs when elements selected for the sample are chosen by the judgment of the researcher (Black, 2009). Judgmental sampling was used because the study has purposively chosen to study the best socially responsible performers in the JSE SRI index for 2015 which were 35 companies.

In this study, a subset of 35 companies was selected out of the entire population of 61 companies at FTSE/JSE responsible investment index 2015, only the top 35 companies were used for the study. The reason for choosing the best top 35 performers is because these companies provide a good example of socially responsible companies and hence their use as a case from where relevant data shall be collected.

Although 35 companies were chosen as the sample, the number of companies from where the research data were collected was five companies. The reason is that the five companies reported social investment data consecutively for five years which was lacking in other companies.

3.6 Data Collection

Data collection is information that is obtained in a course of a study (Polit & Hungler, 1999). Data collection can be explained as the process of gathering and computing information on variables of interest, this is done in an established orderly fashion that assist in answering research questions, to test the hypotheses, and weigh outcomes. Data collected can be in form of primary and secondary data. According to Parker (2003), “The primary data are mostly collected using semi-structured interviews with the experts in the observed topic from the case organisations”. Parker (2003) further explained secondary data by saying it constitute internal journals provided by participants to the scholars and publicly available information which is relevant to the topic being observed. Instruments used to collect data for this study were a computer and the internet. This researcher used the archival or document approach, this means that data for this research were collected from the integrated sustainability reports of companies in the FTSE/JSE Responsible investment index from 2011 to 2015. The integrated sustainability reports of companies are publicly available on the internet.

3.6.1 Measures of financial performance

As specified earlier, the financial measures used in this study were accounting indicators namely share price, turnover/ return on sales, and return on equity.

3.6.2 Measures of Corporate Social Investment

The proxy for corporate social investment in this research was the yearly corporate social expenditure as reported by companies.

3.7 Data Analysis

Data analysis is the process of drawing information from raw data with the aim to discover useful meaningful information. This study used a simple regression equation. Regression is a statistical tool that allows the researcher to examine how the independent variable is related to the dependent variables (Jim, 2005). Although many factors may affect the dependent variable such as return on equity and share price; in this research these other unknown variables will hold constant to allow the researcher to establish a relationship without assuming any causality. This is important as any relationship will be used to inform practitioners that it might be worthwhile to engage in social investment. Each research question will be analysed separately, the simple regression equation that was used for each research question was represented as:

$$Y = \beta o + \beta_1 \chi_1 + \varepsilon$$

Where: Y will represent the share price, turn over, and return on equity respectively. βo will represent the intercept, $\beta 1$ will represent the gradient, $\chi 1$ will represent the CSI (independent variable) and ε will represent the error.

3.8 Ethical considerations

Integrated sustainability reports of companies in the FTSE/JSE Responsible Investment Index from 2011 to 2015 are publicly available, and are published annually, data will not be manipulated or edited and proper recognition will be given by citing and referencing the data collected from the web sites.

3.9 Summary of chapter three

This chapter explained the method used to evaluate the relationship between Corporate Social Investment and firm's financial performance, the concept is known as positivist. Qualitative and Quantitative concepts were defined and differentiated. This study used a Quantitative method. Johannesburg Stock Exchange FTSE/JSE Responsible Investment Index is the study area. Population of this study was 61 listed companies on the JSE. The top 35 listed companies were chosen, and then from top 35, only 5 companies were used. Data collected were from the year 2011 to 2015 on social reporting, and financial performances were firm's share price, turnover, and return on equity. Data were analysed using simple regression equation. There were no ethical considerations for this study.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The study used archival or document approach by collecting data from the integrated sustainability reporting of companies in the Financial Times Stock Exchange /Johannesburg Stock Exchange (FTSE/JSE) Responsible Investment Index. The financial reports of these companies are publicly available. The data collected were turnover, share price and return on equity for at least a period of five (5) years from 2011 to 2015. Table 4.2.1 provides raw data of selected companies. Section 4.2.2 provides the Companies' Performance Bar Charts, and section 4.3 is a complete data and analysis using simple linear regression.

4.2 Data Presentation

Data were collected from the companies listed on the FTSE/JSE responsible investment index constituents-12 October 2015. The information will be acquired from the web pages of The Johannesburg Stock Exchange. For this study the top 35 companies were selected out of the entire population of 61 companies on the FTSE/JSE responsible investment index 2015, from the top 35 companies 5 companies were randomly selected for the purpose of this study. The reason for choosing the best top 35 performers is because these companies provide a good example of socially responsible companies, and therefore they are relevant to collect data.

From the above list 5 companies were randomly chosen for data collection. The companies chosen are, company A, company B, company C, company D, and company E. In this case since the study evaluates the relationship between Corporate Social Investment and financial performance, real names of the companies are withheld for legal reasons.

Data for Corporate Social Investment such as awareness programmes, charity, equal employment, society wellness programmes, and education contributions were used; while the financial performance was collected from companies‟ integrated sustainability reports 2011 to 2015. The financial data used are share price, turnover, and returns on equity (ROE).

Table 4.2.1. Shows raw data

Company	Year	Rm	R	Rm	%
		Corporate Social Investment	Share Price	Turnover	Return on Equity
COMPANY A	2011	30	13. 05	22. 584	32. 91
	2012	36	17. 90	25. 174	32. 75
	2013	58	24. 00	27. 382	83. 75
	2014	34	31. 61	31. 783	26. 49
	2015	39	36. 30	33. 711	22. 91
COMPANY B	2011	11.4	63. 38	10. 973	45. 64
	2012	13	94. 34	12. 122	49. 02
	2013	16.7	116. 99	13. 800	51. 75
	2014	18.8	156. 01	15. 892	50. 70
	2015	23.5	251. 96	18. 099	51. 76
COMPANY C	2011	184.9	500. 00	48. 553	106. 10
	2012	276.6	549. 4	45. 446	80. 39
	2013	253.7	443. 00	54. 461	79. 89
	2014	202.3	240. 00	47. 597	52. 52
	2015	175	33. 3	36. 138	4. 31
COMPANY D	2011	89	144. 5	18. 034	13. 60
	2012	116	190. 0	19. 680	14. 80
	2013	111	212. 0	21. 220	15. 60
	2014	112	243. 2	22. 961	15. 80
	2015	107	214. 4	23. 885	15. 70
COMPANY E	2011	10	70. 00	13. 397	16. 60
	2012	10	72. 00	13. 827	10. 20
	2013	10	79. 10	15. 942	14. 10
	2014	10	84. 20	16. 903	13. 00
	2015	18	89. 40	18. 446	11. 90

The above table shows the secondary raw data collected from companies listed on the FTSE/JSE responsible investment index constituents-12 October 2015. Data were collected from 2011 to 2015. Corporate Social Investment's value is in Rand in Millions (Rm), share price value is in Rand (R), turnover's value is Rand in Millions (Rm), and lastly return on equity is in percentage (%). This data are now analysed in the following section.

CSI = Corporate Social Investment SP
= Share Price
TO = Turnover
ROI = Return on Investment

4.2.2 Companies' Performance Bar Charts Company

Company A

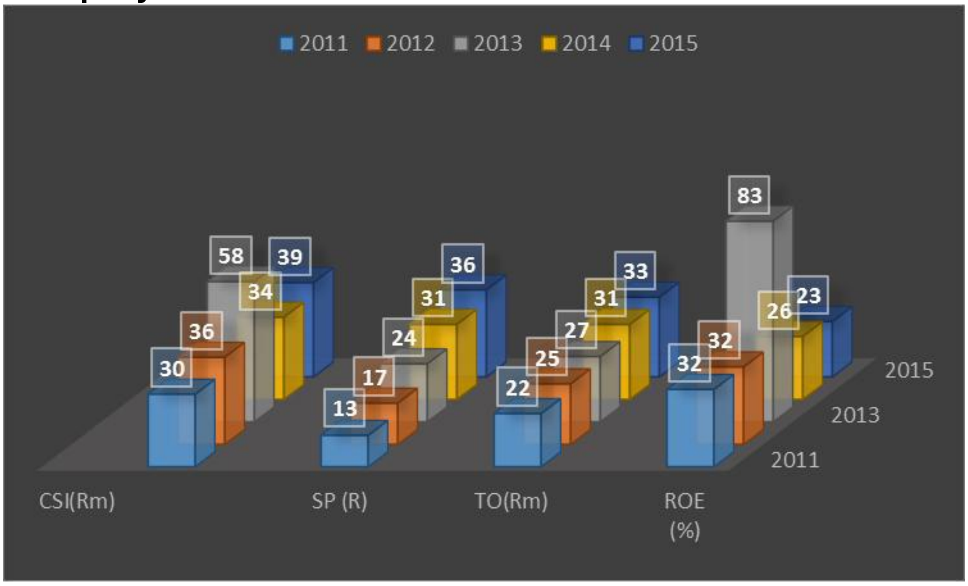


Figure 4.2.2a. Company A Performance Bar Chart for CSI, SP, TO & ROE (2011 - 2015)

The data of company A show that there is an increase in share price, turnover, when company A incorporate CSI strategy into business operations, there was a large amount of CSI in the year 2013, however the researcher's results show stable percentages in return on equity (ROE) in the years 2011 and 2012, ROE decreased from 32% to 26% in the year 2013. ROE had massive increase to 83% in the year 2014, and severely dropped to 23% in the year 2015.

Company B

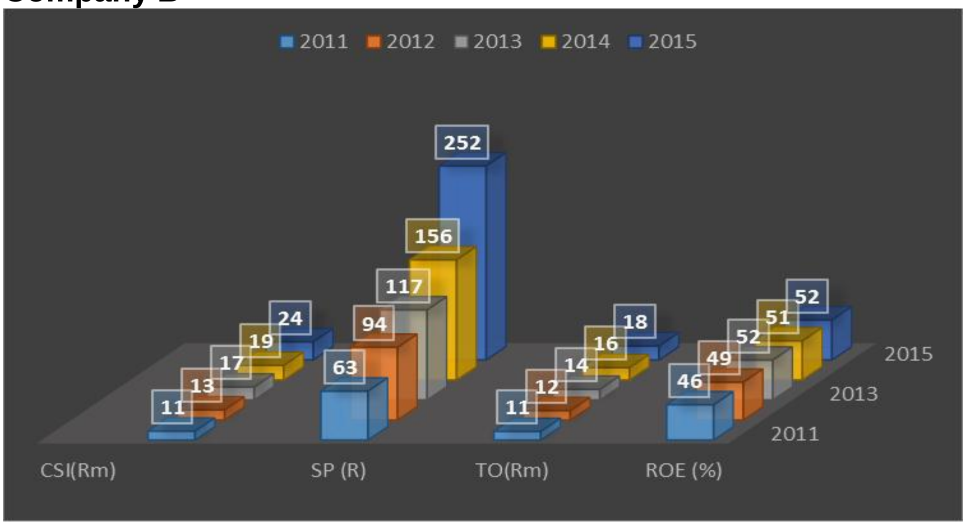


Figure 4.2.2b. Company B Performance Bar Chart for CSI, SP, TO & ROE (2011 - 2015)

The researcher's data on company B shows increase in CSI from the year 2011 to the year 2015, this increase is accompanied by increase in share price, turnover and return on equity from the year 2011 to 2015.

Company C

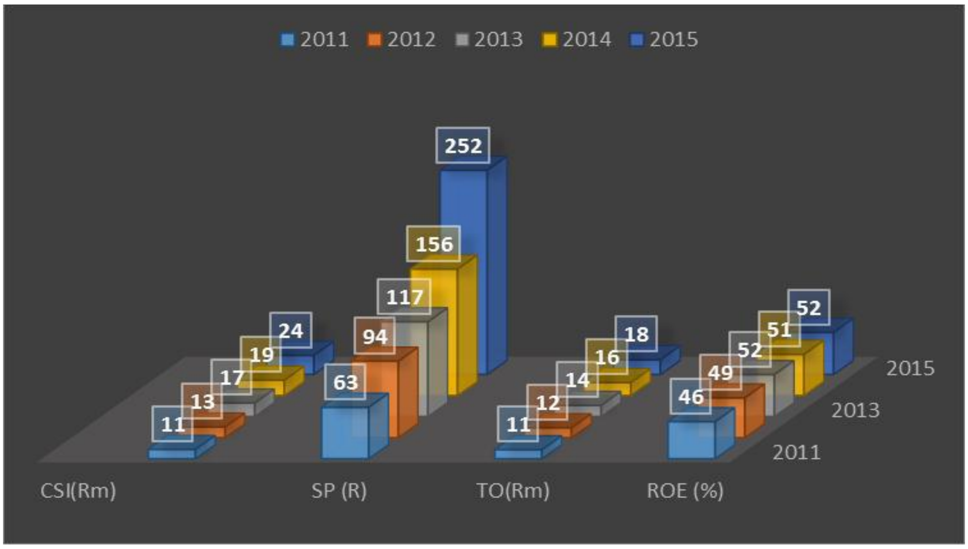


Figure 4.2.2c. Company C Performance Bar Chart for CSI, SP, TO & ROE (2011 - 2015)

Increase in CSI of company C also show an increase in share price, turnover, return on equity from the year 2011 to the year 2015.

Company D

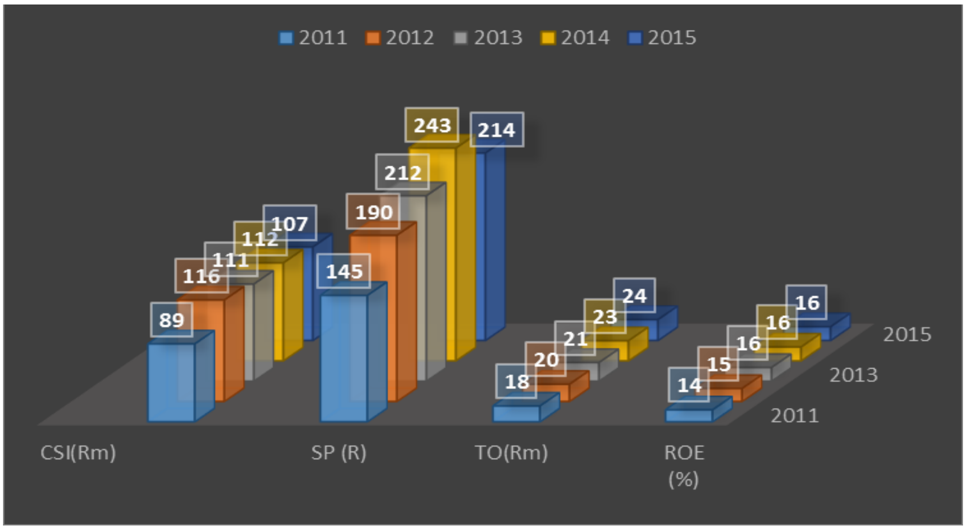


Figure 4.2.2d. Company D Performance Bar Chart for CSI, SP, TO & ROE (2011 - 2015)

Data of company show an increase in CSI which is accompanied by an increase in share price, turnover and increased return on equity between the years 2011 to 2015, and stable percentage of 16% in return on equity from the year 2013 to 2015.

Company E

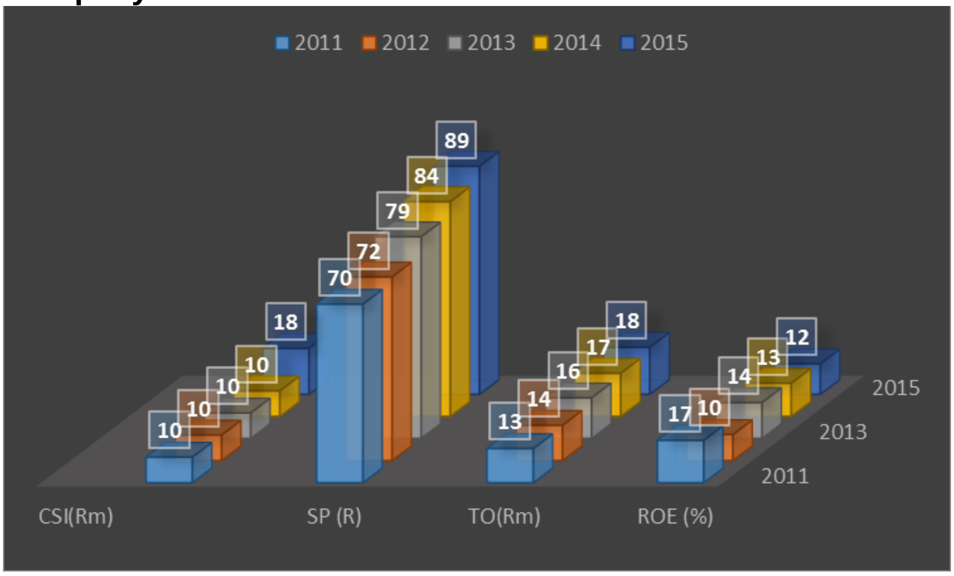


Figure 4.2.2e. Company E Performance Bar Chart for CSI, SP, TO & ROE (2011 - 2015)

Data for company E started with R10m in the year 2011, 2012, the contribution for the year 2013 and 2014 was not reported, and hence values from the previous year were taken and plugged on the missing years. There is an increase in share price, turnover, and fluctuations in ROE.

4.3 Data Analysis and Results

This research analysed the research data using quantitative studies method, which involves scrutinising and proving a better understanding statistical numbers while attempting to find reason or logic behind the appearance of main findings. This study used a simple regression equation. Regression is a statistical instrument that allows the researcher to scrutinize how the independent variable is related to the dependent variables (Jim, 2005). Regression analysis makes statistical calculation to define the connection between two themes. When examining the relationship between a quantitative outcome and a single quantitative explanatory variable, simple linear regression is the most commonly considered analysis method. Each research question will be analysed separately using simple regression equation.

Regression Model

$Y = \beta o + \beta_1\chi_1 + \varepsilon$

Where: Y represent the company's financial performance (share price, turnover and return on equity) respectively. βo will represent the intercept, β_1 will represent the gradient, χ_1 will represent the CSI (independent variable) and ε will represent the error.

p- value was used interpret the data. The p-value is defined as the probability of obtaining a result equal to or "more extreme" than what was actually observed, when the null hypothesis is true (Hubbard, 2004).

- A small p-value (typically ≤ 0.05) indicates strong evidence against the null hypothesis, so the null hypothesis is rejected.

- A large p-value (> 0.05) indicates weak evidence against the null hypothesis.

- p-values very close to the cutoff (0.05) are considered to be marginal (could go either way).

Test 1:

Test 1: Is there a link between companies that's contribute towards social investment and Share Price (ShP) of those companies?

$Y = \beta o + \beta_1\chi_1 + \varepsilon$

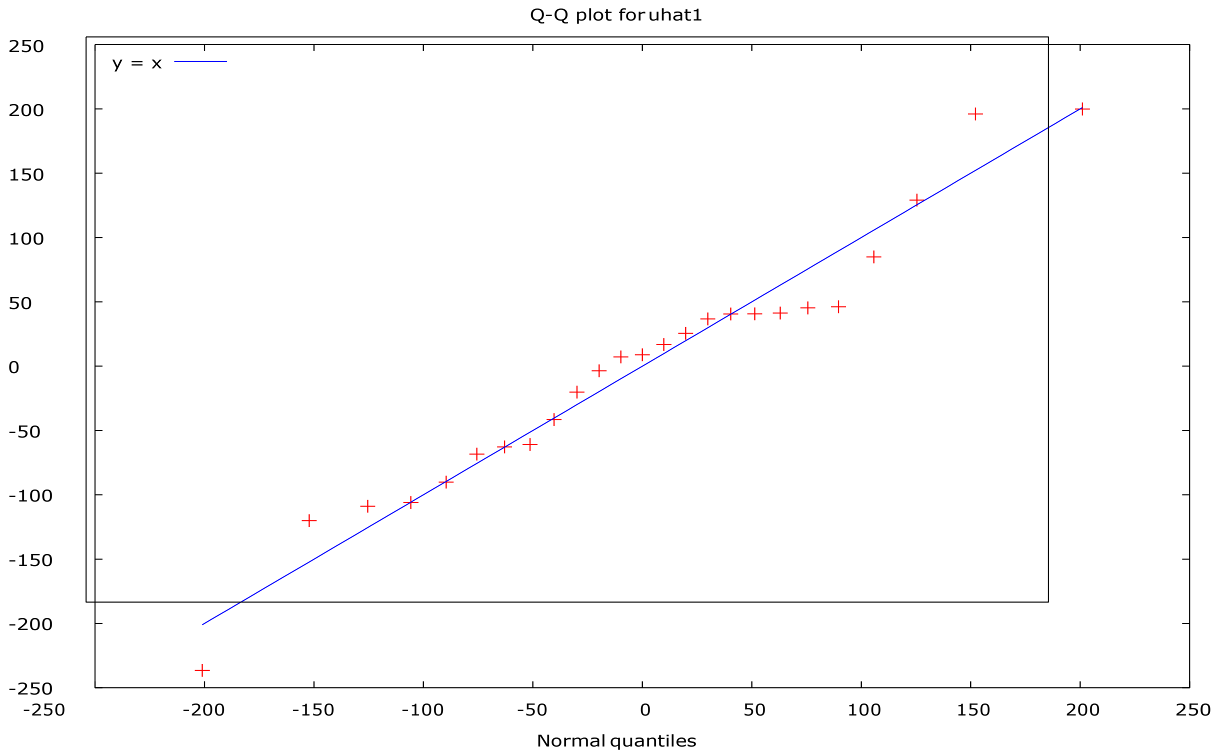
Y= share price, βo will represent the intercept, β_1 will represent the gradient, χ_1 will represent the CSI (independent variable) and ε will represent the error.

Model 1: Fixed-effects, using 25 observations Included 5 cross-sectional units
Time-series length = 5 Dependent variable: ShP (Share price)

	Coefficient	Std. Error	t-ratio	p-value	
const	36.8522	33.1689	1.1110	0.28041	
CSI	1.41178	0.287367	4.9128	0.00010	***

Mean dependent var	158.8016	S.D. dependent var	148.9715
Sum squared resid	229903.6	S.E. of regression	110.0009
R-squared	0.568354	Adjusted R-squared	0.454763
F(5, 19)	5.003508	P-value(F)	0.004314
Log-likelihood	-149.5552	Akaike criterion	311.1104
Schwarz criterion	318.4237	Hannan-Quinn	313.1388
rho	-0.388592	Durbin-Watson	2.443620

Test for differing group intercepts -
Null hypothesis: The groups have a common intercept Test statistic: F(4, 19) = 0.0454565
with p-value = P(F(4, 19) > 0.0454565) = 0.995753



From test 1: Changes in X are associated with changes in Y, whereby X= Corporate Social investment, and Y= Share price. There is a significant relationship between x and y, because the data points are close to the regression line. CSI is related to share price at a significance value of: P = 0.0001 which is less than 0.05; therefore the relationship is significant.

As the selected five companies incorporated Corporate Social Investment in their operations, there is increased turnover; therefore there is a very strong positive relationship between CSI and Share price.

The results of this study are similar to the past studies. Porter & Kramer (2006) indicate that corporate social Investments attract financial wealth from socially responsible stockholders and increase the return on share price and have also shown that the voluntary exposure of social investment activities leads to a reduction in the firm's cost of money, while attracting committed institutional investors. A good corporate social investment strategy can transform to higher firm's revenues and shareholders value a firm with social investment determinations (Bowen, 1953). Jensen (2001) calls this "enlightened value maximisation". CSI increases relative market share (Carroll & Shabana, 2015, Maon et al., 2009). According to Stout (2012), shareholders are more attracted to invest in corporate which have social responsibilities plans in their strategy, this can increase stock price and result in growth on share price returns.

However, the finding of this study is dissimilar from the theory of Aupperle et al. (1985) and Friedman (1970) and other economists which say that CSI incur costs which reduce the company's profit and shareholders‟ wealth.

Test 2: is there association among companies carrying out social investment and Turnover (TOV)?

Statistical analysis: $Y = \beta o + \beta_1 \chi_1 + \varepsilon$

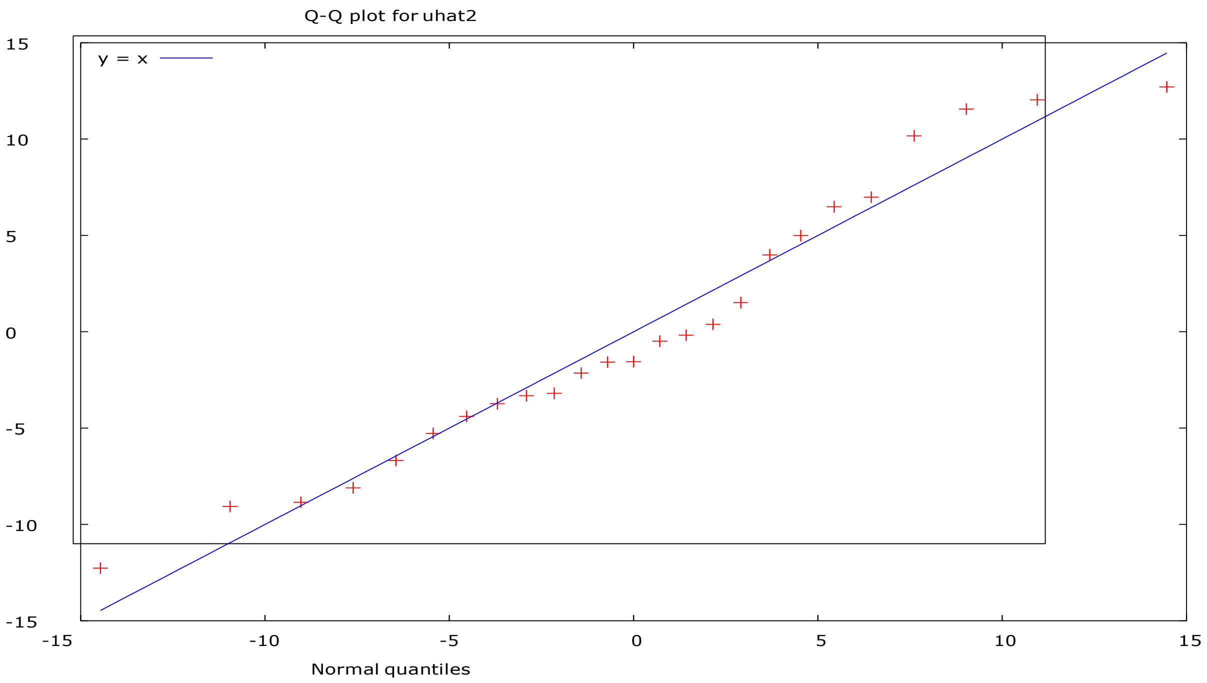
Y= Turnover, βo will represent the intercept, β_1 will represent the gradient, χ_1 will represent the CSI (independent variable) and ε will represent the error.

Model 2: Fixed-effects, using 25 observations Included 5 cross-sectional units
Time-series length = 5 Dependent variable: TOV (Turnover)

	Coefficient	Std. Error	t-ratio	p-value	
Const	13.8296	2.38701	5.7937	0.00001	***
CSI	0.130711	0.0206804	6.3205	<0.00001	***

Mean dependent var	25.12040	S.D. dependent var	12.53935
Sum squared resid	1190.668	S.E. of regression	7.916232
R-squared	0.684478	Adjusted R-squared	0.601446
F(5, 19)	8.243543	P-value(F)	0.000279
Log-likelihood	-83.76589	Akaike criterion	179.5318
Schwarz criterion	186.8450	Hannan-Quinn	181.5602
Rho	-0.144913	Durbin-Watson	1.652171

Test for differing group intercepts -
Null hypothesis: The groups have a common intercept
Test statistic: F(4, 19) = 0.946042
with p-value = P(F(4, 19) > 0.946042) = 0.459091



CSI is related to turnover at a significance value of: P = 0.00001 which is less than 0.05; therefore relationship is significant.

From test 2: Changes in X are associated with changes in Y, whereby X= Corporate Social investment, and Y= Turnover. There is a significant relationship between x and y, because the data points are close to the regression line.

As the selected five companies incorporated Corporate Social Investment in their operations, there is increased turnover, therefore there is a very strong positive relationship between CSI and TOV (turnover). The results of this study are similar to the previous studies. Ruf et al. (2001) say “in year 3, a significant positive relationship was found between CSI and turnover ($p < 0.001$)”. Companies with higher social investment commitments to stakeholders can acquire increase in revenue. Companies can improve profitability over a good relationship with its stakeholders (Choi & Wang, 2009). Corporates who are looking after the society by investing back to the community turns to get rewards from the markets which contribute toward profit generation. The markets react positively to corporates who are incorporating social investment in its company’s plans (Benabou, Tirole, 2010; Eccles et al., 2012). CSI strategies in business will also increase market opportunities and pricing premiums. These two advantages put a company in a good position to increase financial performance (Fombrun, Gardberg & Barnett, 2000). Kotha et al., (2001), and Roberts et al., (2002) concluded that firms with good status for social investment appreciate higher transactions growth and good return on assets. Corporates may notice increased return on revenue after few years of engagements in social investment (Orlitzky et al., 2003).

However, Barnea and Rubin (2010) suggested that CSI expenditure will lead to a reduction in profit as managers are distracted from their scope of work. Aupperle et al. (1985) found no relationship between CSI and profitability. Aupperle et al. say CSI incurs costs that might otherwise be avoided. Friedman (1970) and other economists said there is little measurable financial benefits to CSI behaviour while there are huge costs to incorporate social investment in the company. It is further elaborated that these costs will reduce the company’s profit and shareholder’s wealth. McWilliams and Siegel (2001) concluded by saying firms that engage in CSI will earn the same rate of profit as firms that do not engage in CSI.

Test 3: How relationship exists between Corporate Social Investment (CSI) and return on equity?

Statistical analysis: $Y = \beta o + \beta_1\chi_1 + \varepsilon$

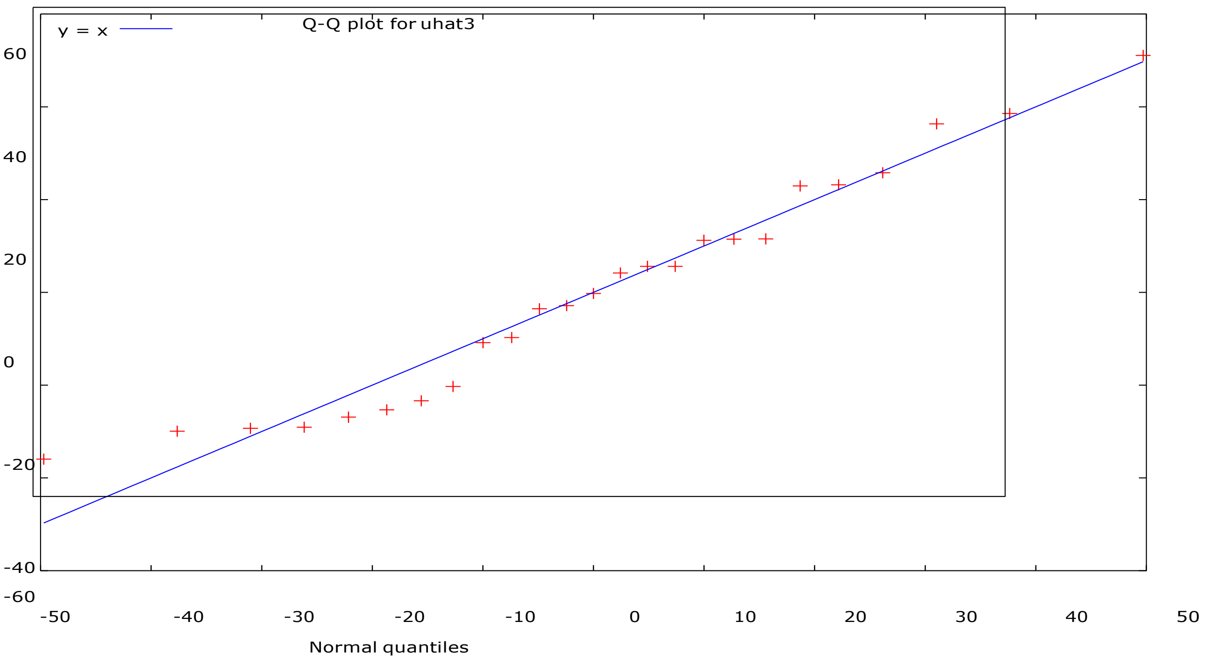
Y= Return of Equity, βo will represent the intercept, β_1 will represent the gradient, χ_1 will represent the CSI (independent variable) and ε will represent the error.

Model 3: Fixed-effects, using 25 observations Included 5 cross-sectional units
Time-series length = 5 Dependent variable: ROE (Return on Equity)

	Coefficient	Std. Error	t-ratio	p-value	
const	26.125	8.20378	3.1845	0.00488	***
CSI	0.119965	0.0710754	1.6879	0.10779	

Mean dependent var	36.48760	S.D. dependent var	27.71724
Sum squared resid	14064.10	S.E. of regression	27.20691
R-squared	0.237217	Adjusted R-squared	0.036485
F(5, 19)	1.181760	P-value(F)	0.354633
Log-likelihood	-114.6298	Akaike criterion	241.2595
Schwarz criterion	248.5728	Hannan-Quinn	243.2879
rho	0.118308	Durbin-Watson	1.526427

Test for differing group intercepts -
Null hypothesis: The groups have a common intercept
Test statistic: F(4, 19) = 0.655707
with p-value = P(F(4, 19) > 0.655707) = 0.630088



CSI is related to return on equity at a significance value of: P = 0.10, which is higher than 0.05; therefore the relationship is significant.

Changes in X are associated with changes in Y, whereby X= Corporate Social investment, and Y= Return on Equity. There is a significant relationship between x and y, because the data points are close to the regression line.

As the selected five companies incorporated Corporate Social Investment in their operations, there is increased Return on Equity, therefore there is a positive relationship between CSI and ROE. Results of this test are similar to results of Ruf et al. (2001) who said “In year 3, a significant positive relationship was found between CSI and change in return on equity (p < 0.03)”.

The most widely reported profitability measure is the return on equity (Hawkins, 1998) and according to Berstein & Wild (1998), return on equity can also be used as a measure of great interest to shareholders. Palepu et al. (1996) stated that any change in return on equity is seen first in a change in turnover margins. Companies with good social disclosure tend to have a positive correlation with ROE (Ullman, 1985).

4.4 Conclusion

Results of this study revealed significant positive connection in the middle of company's social investment and fiscal presentation. Within 5 selected companies data, there are changes of X and Y. The results show that there is a positive and significant connection between corporate social investment and share price, turnover and return on equity. This study results share similar view with the results of combined qualitative and quantitative study data of Margolis et al. (2009). Margolis et al. (2009) revealed that there is a linkage between corporate social investment and accounting indicators and market share profit. However they came into this conclusion after contacting a study on 167 companies from 1972 to 2007. This study was conducted on 5 companies from 2011 to 2015 which differ from the studies of Margolis. Solid positive relations between corporate social investment and corporate financial benefits among Australian firms was discovered by Galbreath (2008).

The relationship between CSI and CFP is stronger for firms from developed economies than from developing economies (Campbell, 2007). However this study is contrary to Campbell on the point that the relationship is stronger in developed countries than developing countries. The study is also contrary to study of Barnett and Salomon (2012, 2006), which said "linear model suggests that there is a negative relationship between CSP and CFP", however Return on Capital.

This study differs from the study of Lopez et al. (2007) which analysed the connection between corporate social investment and firm's financial presentation for two years. The results of Lopez study found a negative connection between firm's social engagement and firm's economical gain. However, Lopez et al. (2007) study collected data from the Dow Jones Sustainability Index (DJSI), with a sample size of more than 100 European firms. This study collected data of companies in FTSE/JSE Investment Index, and the sample was made up 35 South African companies.

Teoh et al. (1999) found that there is no connection between corporate social investment and firm's fiscal performance. Friedman's (1970) study which said there are no significant economic benefits for firms who are practicing socially responsible behaviour.

Therefore, the research findings support the previous studies which said corporate social investment enhance firm's fiscal performance, hence firm's top manager will continue to incorporate social investment strategy in firm's planning's (Waddock & Graves, 1997). Corporate social investment does not only benefit the firm to maximise financial performance, it is also building a good reputation with external stakeholders. Consumers develop trust and loyalty to corporates who are sharing wealth with the society, looking after the environment. How a firm portray itself to the stakeholder can translated to high financials (McWilliams & Siegel, 2001).

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study evaluated the relationship between corporate social investment and financial performance. The topic “An Evaluation of the Relationship between Corporate Social Investment and financial performance” has remained a remarkable subject because regardless of numerous literatures, the findings are unclear. Some of the previous literature reported positive link between corporate social investment and fiscal presentation. On the other side some literature says there is a negative relationship between CSI and CFP, while few studies concluded by saying there is no difference on incorporating CSI strategy in business operation. The sample is composed of South African companies listed on FTSE/JSE responsible investment top 35 index constituents-12 October 2015.

The information of selected companies was attained from the internet. There are many different methods to measure CSI. Previous studies have used methods such as Global Reporting Initiative (GRI), others used Dow Jones Sustainability Index (DJSI), and some researchers used Good Corporate Governance (CG), while others utilized Global Compact (GC). This study measured CSI by looking at the social engagements carried out by the companies themselves and CFP using three accounting-based measures, i.e. share price, turnover, and return on equity. The sample includes five (5) firms that are listed in the FTSE/JSE responsible investment top 35 index constituents-12 October 2015. Data contained social investment and financial performance activities between the years of 2011 to 2015.

Outcomes from the linear model put forward that there is a significant linkage between corporate social investment and share price, turnover, and return on equity.

5.2 Summary of Findings

Objective 1: Questioning the **r**elationship of corporate social investment to share price of a South African companies that contribute to social investments. The researcher revealed positive linear link between CSI and accounting based financial performance (symbolised by Share price). This outcome is supported by study of Porter & Kramer (2006) which indicated that corporate social investments attract financial capitals from socially accountable stockholders and increase the return on share price.

Objective 2: To evaluate the relationship between corporate social investment and turnover. There is a solid affirmative link between CSI and accounting based fiscal presentation, specifically turnover. Similar results were found by Choi and Wang (2009) who stated that superior commitment with stakeholders can increase a firm's turnover. McWilliams and Siegel (2000, 2001) conclude that "there is some level of CSI that will maximise profits while satisfying the demand for CSR from multiple stakeholders. The ideal level of CSI can be determined by cost-benefit analysis". This study's results differ from the study conducted by McWilliams and Siegel (2001) which concluded that, "in equilibrium, firms that engage in CSI will earn the same rate of profit as firms that do not engage in CSI".

Objective 3: To evaluate the link between corporate social investment and return on equity. The researcher revealed a positive linear relationship between CSI performance and increases in accounting based financial performance (symbolised by return on equity) of companies that contribute to social investments. According to McGuire et al. (1988), "those companies obtaining better rating on sustainability according to the GRI Sustainability Reporting Guidelines obtained superior financial results as measured by ROE and RAO".

5.3 Recommendation

Based on the results of this study, it was found that there is a positive relationship between corporate social investment and share price, turnover, and return on equity. Therefore, this study has answered the uncertainty about whether there is a relationship between corporate social investment and corporate financial performance. Furthermore, companies should participate in CSI because the public will often pay attention to the brands due to the contribution made by company. Companies regarded as socially responsible investors can also benefit from its reputation and increased ability to attract capital and trading partners.

There were some restrictions accompanying the outcomes of this study. The researcher of this study concluded on a small number of South African listed firms of 25 firms. The analysis were based of the observation of accounting indicators for a period of five years, from 2011 to 2015. However, similar outcomes were found by previous studies with dissimilar fiscal performance reflection period of four years, and dissimilar sample scope of 300 firms (Mahoney & Roberts, 2007). Constructed from few restrictions of this study, the future researchers should deliberate on expending large sample size to interpret the end results. Upcoming studies must use information with a lengthier period to procure more valid depth outcomes. The future studies in scrutinizing the linkage among corporate social investment and fiscal presentation should be done in developing countries such as South Africa with a large sample size for longer period.

5.4 Conclusion

Ongoing arguments concerning the financial worth of businesses that are socially responsible have dominated in many studies. Majority of researchers have identified financial benefits in companies which incorporate social investment strategies in its plans. This study attempted to evaluate the relationship between corporate social investment and share price, turnover and return on equity. The researcher concluded this study by using limited time historical data due to time factor. Form the 5 companies selected; results indicate that there is financial benefit when companies incorporate social investment strategies. Financial indicators were share price, turnover and return on equity. Most studies from the literature showed positive relationship between CSI and CFP, if other studies have showed negative relationship it is possible because of diverse methods used, location and used in the study. It is therefore recommended that in future, researchers should rather opt to use larger samples to investigate the link between CSI and CFP.

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