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The Dilemma Social Performance and Financial Performance of the Company: Theoretical Framework and Conceptual Approach

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1. Introduction

In previous years, it is necessary to know that sustainable development has moved into the work and research themes. It occupies a prominent place in the professional and academic strategic concerns. The objective of sustainable development is to reconcile the three central references: the preservation of the environment, social progress and economic development by seeking sustainability and profit maximization.

In order to protect the image and reputation of the company, and to master the economic risks, social and environmental towards stakeholders, the business world has seen the emergence of a new concept sustainable development named social Responsibility[1]which according to definition (Carroll, 1979)"Social responsibility of business encompasses the economic expectations, legal, ethical and discretionary that society imposes on organizations at some point." According to the author CSR is a strategic move that has a role in organizational change. In other words it is the contribution of business to sustainable development principles.

The concept of social performance of the company is declined from CSR. This notion evokes all actions and CSR achievements in terms of performance. It is the result of a management relationship between the stakeholders related to the company in question. The concept of CSP[2]was the subject of many theoretical debates on these foundations, characteristics and measures employed.

In this article, we will focus on the possible relationship between social performance and corporate financial performance. This debate has sparked growing interest by researchers and professionals in the field of management, finance, strategy, etc.

First, we will discuss the relationship CSP/ CFP[3]through the type of links between social and financial performance of the company. Then we will study the measures of CSP. Finally, we conclude by drawing the advantages and disadvantages of measuring instruments of the two variables.

2. Social Performance relationship and the Company's Financial Performance

The relationship CSP/CFP has spilled much ink. Numerous studies and research have tried to find a link between the two concepts, but it was never fully established. Proponents of stakeholder theory stipulates that there is a positive correlation between the two sides in the long term (Freeman 1984). The opponents of this theory argue that the only element that own business is the fact of defending the interests of shareholders, to focus on something else cause a rupture that will have an adverse effect on wealth (Friedman 1970).

The relationship CSP/CFP led to establish three possibilities or theoretical explanations. The first is the existence of linear relations between the two concepts. The second suggests the absence of links between the two, and finally the last suggests the existence of nonlinear relationships.

Section 1: Types of links between CSP/CFP

The correlation between the CSP/CFP can take three forms: positive, neutral and negative. However, some researchers have tried to find a causal link between the CSP and the CFP, which constitute the second part of this section.

2.1 Positive Correlation

The correlation between CSP/CFP is considered positive, which means that a company that tries to reduce costs related to quality, environment called implicit costs, will in return increase explicit costs (penalties, increases; etc ...) and, consequently, it will have a negative impact on profitability. So we can say that a good corporate financial performance is done by a good corporate social performance. In fact they are positively correlated. According to Moskowitz (1972), the costs of a good CSP are lower than expected profit. Most research tends to support this positive correlation.

2.2 Correlation Neutral

Among the supporters of this correlation Ullman (1985) considers that there is no relationship between the CSP and

[1]Known as the abbreviation CSR: Some researchers call also societal, it means consideration of the social and environmental aspect. During our research we use the concept of Social Responsibility.
[2] CSP : Company Social Performance.
[3]CSP/CFP: Company Social Performance / Companyfinancial performance.

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the CFP. Indeed, it states that to establish a link between the two variables, several factors that are difficult to measure must be taken into consideration. Among other authors who found no link between the CSP/CFP include Alexander and Buchholz (1978), Carroll and Hatfield (1985).

2.3 Negative Correlation

Proponents of this theory argue that the fact of embarking on social initiatives will generate costs that are not necessary and are supposed to be supported by other organizations. So the benefit will be reduced while costs will be significant. The CSP generates additional costs for the company, and consequently lower profits. The CSP and CFP are uncorrelated. Among those who support this theory, we find Vance (1975) and Brammer et al (2006).

2.4 Causality CSP/CFP

This aspect of the study will be the analysis of the causal link between social performance of the company and its financial performance. As mentioned before, in the context of good management theory, a good CSP can predict a good CFP of the company in the future. Furthermore, and as part of the financial resources theory McGuire et al (1990), good CFP may portend a good CSP.

This causal relationship between these two variables was the subject of empirical research, which we can draw some conclusions. Vogel (2005) argues ambivalence on the link CSP- FP[4]. A study shows a moderate positive relationship between levels of emission reductions in 1988 and 1989 and financial performance. Vogel's idea is to show that there is no evidence that responsible behavior can make it profitable, and also that some studies show that companies that invest in CSR generate as much profit as those who are investing not.

It also recalls that profitable companies are those that have CSR practices as they own the means to achieve it. He concludes that the link between the CSP and the CFP is "inconclusive"[5]. As stated before, there are three types of theoretical explanations of the relationship between the CSP and the CFP:

- Existence of a linear relationship between the two components;
- Existence of a nonlinear relationship between the CSP and the CFP;
- No link between the two.

The following will put the item on each of these relationships:

Causality	Nature of relationship	
	linear relationship	
	positive	negative
SP→FP	Hypothesis social impact (1)	Hypothesis of arbitration (3)
FP→SP	Hypothesis of available funds (2)	Hypothesis expediency (4)
SP<->FP	positive synergy (5)	negative synergy (6)
	No relationship	
CSP ø CFP	Assuming no relationship between the two variables (7)	
	non-linear relationship (complex)	
CSP ΙΙ CFP	Assumption of existence of non-linear relationship (8)	

Source: Gond (2001).

The first hypothesis states that the more the company is performing socially, the more it will be too financially (H1). In contrast to the one proposed above, the second hypothesis states that the more the company is strong financially, the more it will become strong socially (H2).

These two hypotheses support the existence of a positive relationship between the two variables, not taking into consideration the causal link.

A second type of hypotheses supports a negative relationship between the two variables. Indeed, it states that if the company is socially strong, it will not be the same in the economic and financial level (H3).In the opposite, if a company is financially strong, it will be less socially (H4).

A third type might exist, that consider a positive synergy between the CSP and the CFP (H5), or completely the opposite, negative synergy (H6).

In this set of assumptions, it would be interesting to add the lack of links between the CSP and CFP (H7) (Gond, 2001) Or otherwise, the existence of complex links (H8) between them.

2.4.1 A linear relationship between the CSP and the CFP

<u>Assumptions offering a positive relationship between CSP and CFP</u>

Two theories support the existence of a positive relationship between the CSP and the CFP: the assumption of social impact (Social impact hypothesis) and the assumption of available funds (Fund Available hypothesis).

(H1): Social Impact Hypothesis

This assumption stems from the Stakeholder theory which is the basis of the influence of social practices: the company meets the objectives of the stakeholders that will promote improved economic performance and financial (Freeman, 1984). A good practice of CSP will favorably impact the CFP. The fact of not responding positively to the expectations of stakeholders will generate a negative reaction of the market towards the company, and will result higher costs and therefore lower profits. Starting from the same reasoning, responding positively to the needs of stakeholders will have a positive impact on the image and reputation of the company, and will have a positive impact on the CFP.

(H2) Assumption of funds available

This second hypothesis argues that a high level of financial performance helps the company to meet the expectations of stakeholders. A company's social commitment will require financial and expensive resources, which will be possible

[4] FP : financial Performance
[5] Vogel "the market for virtue - the potentan and limits of corporate social responsibility," the Brookings Institution Press, Washington DC.

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only if the company is doing very well financially. In this case, the two variables are positively correlated and the link of causality goes from CFP to CSP. Several authors argue that hypothesis as (McGuire, et al., 1988).

Assumptions offering a negative relationship between the PES and PFE

Unlike the two previous assumptions, other authors defend the idea that companies with the worst social outcomes are those that are financially strong and conversely where there is a negative relationship between the CSP and the CFP. The literature highlights two models: the assumption of compromise or arbitration (trade-off hypothesis), and opportunistic model (managerial opportunism hypothesis).

(H3): Arbitration Hypothesis

This hypothesis argues that corporate social responsibility requires additional financial costs. This commitment will lead to a competitive disadvantage, which directly penalize the company's financial performance(Friedman, 1970). Thus, a high CSP will have a negative impact on the CFP and the maximization of profit is the only goal of the company.

(H4): Assumption of opportunism

This theory states that a high level of financial performance will generate a negative effect on the social performance of the business, and conversely, a low level of financial performance have a positive effect on the social performance of the firm. (Preston et al., 1997) states that if the CFP is high, managers will favor their interests to the detriment of the objectives of stakeholders, and reduce payroll taxes to find new opportunities to increase the financial profitability of the company.

2.4.2 Hypotheses suggesting a positive or negative synergy

According to (Preston et al., 1997)Two other theories stipulate the existence of a link between the CSP and the CFP but that goes both ways. Thus, it is possible to assume a virtuous cycle, a positive synergy: a high level of social performance leads to a better financial and economic situation, enabling it to meet the expectations of stakeholders again.

Conversely, a low level of CSP leads to a decline in financial performance of the company, which results in a limitation of socially responsible projects (negative synergy).

This suggests two types of assumptions:

There is a positive synergy between corporate social performance and corporate financial performance.

There is a negative synergy between the CSP and the CFP.

2.4.3 A nonlinear relationship between the CSP and the CFP

In this section, we will focus on the hypothesis of a link other than linear between the CSP and the CFP. This assumes that the CSP positively influences the CFP to a certain level where social investments block the profitability of the company. In this case, we deduce the existence of a threshold for investing in CSR.

Studies like that of (Barnett, et al., 2006)Show a U-shaped relationship between the CSP and the CFP following a study of pension funds. First, improving the CSP via the increasing number of socially responsible projects in the investment strategies leads to increased costs and therefore a decline in financial performance. Secondly, the results show that improving the CSP is associated with increasing the CFP since investors will focus on the most profitable companies financially.

2.4.4 No link between the CSP and the CFP

There are two types of theoretical arguments that defend it nya no relationship between the CSP and the CFP. The first refers to some authors who defend the idea that the relationship between the two elements is very complex and it is difficult to derive a stable relationship.

The second case is the reference in the work of (Mark Williams, et al., 2001). They argue that there is a market of supply and demand for CSR, that is to say that companies have an offer of CSR and consumers have a demand for CSR. At equilibrium model, there is a depletion of profit opportunity related to CSR, so the positioning of the company in terms of CSR does not affect profitability. The link is neutral between the CSP and the CFP.

This multitude of theoretical assumptions led many researchers to conduct empirical tests to check their validity. There are a multitude of studies highlighting the validity of the first two cases, while some assumptions have hardly been tested.

Section 2: CSP Measures

In this section, we will look at different measures of CSP in a number of studies and research. It is impossible to provide a comprehensive overview of indicators, therefore, according to the literature, these indicators will be part of three groups.

The first group includes the indicators from annual reports. According to Ulman (1985), analysis of the annual report is more than a social measure measuring CSR. These measures are frequently used in accounting jobs that assess the social dimension, usually in order to explain the determinants[6].

In practice, and in the Moroccan context, in the private sector companies get the measures from components of the payroll accounting, to get an idea on the turn over of employees and recruitment, creating some social performance indicators.

The second group includes indices of public or private organizations. Among the most frequent indications are cited the "MSC KLD 400 Social Index," "the index of reputation" Fortune Fortune reputation index ", the" Dow Jones Sustainability Index "and Vigeo Index. In addition to these indices, there are several other national indices such as

[6] Igalens and Gond "Corporate social responsibility", Paris PUF, collection "What do I know."

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"CFIE", an index of the French center for the information of companies is a news agency and analysis on corporate social responsibility.

The reputation index recognizes the multidimensional aspect of the nature of CSR. CSR dimensions considered by the indices are represented in Table 1.1 below. Despite their diversity, the key themes are similar in all indications. Mahon & Griffin (1997) revealed that the index and Fortune MSC KLD are almost identical.

The index "Fortune"	*MSC KLD 400 Social Index*	*Vigeo Index*	*Dow Jones Sustainability Index*
The environment	innovation	Human resources	**Economic Dimensions:**
The Company & Community	Human resources management	The environment	Corporate governance
Supply Chain &employees	Social responsibility	Corporate governance	Risk management
Customers	The quality of management	The Business Behavior	The codes of conduct / compliance / anti-corruption
ethics	The quality of products and services	Human rights	**The environmental dimensions:**
The governance	Global competitiveness	Community involvement	Environmental reporting
	The use of corporate assets		The specific industry criteria
	The financial health		**Social dimensions:**
	The long-term investment value		The development of human capital
			The attraction and retention of talent
			labor practice indicators
			Social reporting

Board 1 CSR dimensions in the major indexes for measuring the PES

The third group of CSR measures includes all measurements from surveys. First, CSR dimensions are indentified by the answers of a survey destined to the respondents. They must assess, on a scale, the importance of each dimension. Next, the company's social performance is determined from the weights of each dimension that correspond to their weight in the CSP, and consequently, each firm is evaluated on the basis of its performance in each of its dimensions.

After seeing a set of CSP measures, it would be interesting to implement an analysis of the advantages and disadvantages of the types of CSP and CFP measures.

Section 3: Advantages and disadvantages of measuring instruments of the CSP and CFP.

The influence of the CSP on FP has been the subject of study of a large number of managers (Cochran & Wood 1985). According to the literature, one could identify the advantages and disadvantages of the two measures of the CSP and the CFP. All of these items is summarized in the following table:

Measurement Type	Benefits	disadvantages
CSP		
Indices	• Data Availability • Possibility of comparison	• Lack of the scientific character.
Content Analysis	• Flexibility	• Subjectivity of the researcher • The non-disclosure of data
Survey	• Flexibility	• Non-response rate • Subjectivity of the researcher
CFP		
Indicators based on accounting	- Availability of recent data.	• Historical data
Indicators based on the market	- data comparison possibility.	• Data listed companies and integrated into databases.

Board 2 Source: Author's summary based on literature

As shown in Table 2, there are no perfect measure for CSR and CFP. Nevertheless, the problem of measuring CSR is relevant that the financial reports have historical data, and is widely standardized as the CSR reporting is a recent development.

Reputation indices have the advantage of the availability and comparability between companies, and are widely used in empirical studies to investigate the link CSP and CFP (Soana, 2011).

The indices for measuring CSP is far from ideal because they are used by well specific companies that have the means to achieve goals set by international standards.

Another major drawback of these indices is the fact that the number of companies evaluated CSR remains very limited at both international and national levels.

Another point not to be overlooked is the fact that the rating agencies produce studies on listed companies and well-known, which skews the study since these companies are under social pressure to be socially responsible.

The main problem with this approach is subjectivity of the researcher that can undermine the validity and reliability of results. Subjectivity is relevant at all stages of the research process including the selection of the size of interest and collecting information on these dimensions.

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The disadvantage of the non-disclosure of data refers to the fact that the most socially responsible companies are more likely to report their achievements as less socially responsible companies, and this because the CSR reporting is not mandatory.

Most approaches, if not all, are inherent subjectivity of the researcher and selection bias.

We support a potential solution to the first problem is the standardization of CSR reports, while a potential solution to the second problem is the mandatory disclosure of CSR. Standardization and disclosure of the work of CSR reporting will really test the CSP- CFP relationship, but also for stakeholders when making economic decisions.

3. Conclusion

In this article, we studied the dilemma CSP/CFP through the study of the relationship between financial performance and corporate social performance.

The relationship CSP/CFP led to establish three possibilities or theoretical explanations. The first is the existence of linear relations between the two concepts. The second suggests the absence of links between the two concepts, and finally the last suggests the existence of nonlinear relationships.

Then we tried to group measuring instruments of the CSP into three categories namely: Indicators from the annual reports, the indices of public or private organizations, such as the "MSC KLD 400 Social Index," "index Fortune reputation "reputation index Fortune magazine," the "Dow Jones Sustainability Index" and Vigeo Index, and measurements from the answers of surveys.

Finally, after drawing the advantages and disadvantages of each group, we support a potential solution could be achieved: standardize CSR reports, and make mandatory disclosure of CSR. Standardization and disclosure of CSR reporting to work will actually test the CSP/CFP relationship, and can help and assist stakeholders and the decisions makers to decide what is the best of their companies.

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