Conceptualizing Peer Effects of Corporate Social Performance on Corporate Financial Performance

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ABSTRACT

Purpose: Existing approaches to explaining the dynamics of corporate social responsibility (CSR) and corporate financial performance (CFP) through peer effect are incomplete as they do not conceptualize the complexity of the phenomenon. Building on the extant literature the paper aims to critically document parameters to understand the connectivity between peer effect-CSR and CSR-CFP.

Design/Methodology/Approach: The paper is based on a proposed conceptual framework identifying key parameters to understand the connectivity between peer effect-CSR and CSR-CFP. Relevant extant literature published during 1993-2017 in high-quality journals is synthesized. This review reveals different approaches and measurement techniques as the basis of inconclusive empirical evidence on the relationship between corporate social and financial performance.

Findings: The paper implies that firms mimic their peers’ CSR strategies for different reasons such as reputation or learning in the hope of devising better strategies for growth and sustainable development. To state, there are different motives behind and channels through which peers influence CSR-CFP association.

Implications/Originality/Value: The paper establishes a link between corporate social and financial performance through the lens of peer effect, especially in the context of developing economies. This paper has implications in enhancing overall understanding of social responsibility and financial performance connection by providing clarity on underlying themes, theoretical underpinnings and measurement approaches.

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Introduction

The concept of Corporate Social Responsibility (CSR) has an elongated history with deep roots in the 1950s (Carroll, 2008; Ghobadian et al., 2015). Since then, the development of CSR has been biting the bullets of value vs. no-value to business perceptions. Opponents such as Milton Friedman have heated the
debate by proclaiming “Business of business is business” (Friedman, 2007); a neo-classical economic viewpoint that rebuffed CSR as an unnecessary initiative (Chwistecka-Dudek, 2016; Melikyan, 2010). To refute this advocates such as Peter Drucker have recognized CSR as inevitable for the existence and survival of businesses in the long run (Birch, 2003; Chwistecka-Dudek, 2016). This theory-practice discrepancy has instigated much interest in the research works that rationalize and/or question the need to prevail CSR in the business world (Chwistecka-Dudek, 2016; Melikyan, 2010). Bridging this gap has transformed CSR into a global phenomenon with its newly defined contributions to the way business is done (Fukukawa & Teramoto, 2009; Aksak et al., 2016; Lone et al., 2016; Pisani et al., 2017). In developing economies such as Pakistan, the significance of CSR has truly emerged from the ashes of the “Iqbal Masih Case” and subsequent collaborations in the sports goods industry that led to the awakening of the International Labor Organization (ILO), the government, and other firms from the citizen sector (Waheed, 2005; GIZ, 2016; Suhardjanto et al., 2017). Today, numerous local and multinational corporations (MNCs) such as the Shakarganj Group, Unilever Pakistan, Barclays Bank, Nestle, Pepsi, and the Jalal Din Wali Group (JWG) operating in Pakistan are disclosing their devotion to social responsibility (Ahmed et al., 2011; M. S. Yunis et al., 2017).

Traditionally, firms have perceived CSR as a means to improve public image and customer perception of their business. Engaging in CSR activities such as charities, donations, and other welfare programs helped them pull off the “Green Firm Label”. However, incessant pressures of globalization and resulting socio-political issues have presented corporations with the dual challenge of fostering economic and social development. In response to these 21st century challenges, a popular argument has encouraged CSR as a competitive advantage source leading firms towards high growth and profitability (Ahmed et al., 2011; Saeed & Arshad, 2012; Sajjad & Eweje, 2014). The existing literature has associated CSR with financial performance and healthy finance decisions (A. W. Awan et al., 2012; Iqbal et al., 2012). The rationale underpinning this association is about stakeholder perspective; a firm is likely to strengthen stakeholder relationships in the long run if it behaves in a socially responsible manner (Saeed & Arshad, 2012). Reasons for CSR-driven performance are also recognized in terms of access to high-quality inputs with lower business costs (Wang & Bansal, 2012). Nonetheless, CSR has become increasingly valuable for firms that wish to achieve sustainable development while maintaining healthy and prosperous relationships with the key stakeholders including shareholders, customers, employees, suppliers, regulators, and society at large (Sajjad & Eweje, 2014; Awais et al., 2015; Lone et al., 2016).

Regardless of firm size, research studies have emphasized the relevance of CSR for all businesses wishing to sustain their growth and market position (Ahmed et al., 2011; Fitjar, 2011; Saeed & Arshad, 2012). In this regard, Ding et al. (2016) argued that a firm can only reap the benefits of CSR if it outdoes its peers and well communicates its CSR profile. If CSR helps companies build their competitive strength; it is plausible to state that it can influence their competitors’ ability to contest and adopt CSR activities and vice versa (Ahmed et al., 2011; Saeed & Arshad, 2012; Liu & Wu, 2015). In support, Liu & Wu (2015) found a positive relationship between a firm’s CSR behavior and its competitors’ CSR activities. This indicates that besides financial performance, social responsibility has another important consideration in the form of competitors. Notably, no company operates in isolation and their drive to contend with other firms and to secure competitively better market position certainly shapes their sets of strategic weapons. A company seeking competitive moves to determine its strategic performance is likely to observe its peers to determine CSR trends and motives.

The term ‘peer effects’ has initiated numerous academic researches, especially concerning financial policies and decisions (Kaustia & Knüpf, 2012; Leary & Roberts, 2014; Chen & Ma, 2017); however, its mark on corporate social performance has been insignificantly studied. This association is noteworthy due to increasing corporate and community interests in socially responsible activities which are not simply labeled as “green practices but rather purposive societal interventions”. To point out, peer effects are heterogeneous and these can have a profound impact on a firm’s ability to survive in the long run (Leary & Roberts, 2014). Therefore, peer effects need to be confined to theoretically-supported dimensions to
examine the degree of influence they draw on the social and financial performance of firms. To date, considerable academic attention has been paid to studying the corporate social-financial performance interaction; however, limited or no research has focused on exploring it through the competitor lens. Purpose of this paper is to review existing literature on the underlying reasons of peer effects of CSR and its association with financial performance of firms (Figure 1).

**Figure 1: Contribution of the Review**

**Research Method**
This paper is a review of existing research on social-financial performance interaction through a peer lens. The present study focused on key databases such as Elsevier, Emerald, Wiley, Sage, Springer, and Taylor & Francis (T&F), ABDC-ranked journals. The keywords used to extract extant literature include CSR, social performance, CSR theories, CSR emergence/origins, CSR debate, peer effect, crowd perspective, herd behavior, corporate financial performance, CSR-CFP, and CSP-CFP.

Potential material was selected through a three-step inclusion/exclusion criterion. Firstly, searched journals were filtered based on the quality of the content. Our first preference was to seek and pick out an impact factor and/or ABDC-ranked journals. Secondly, articles from these journals were filtered based on relevance to CSR, peer effect, and CFP. Thirdly, relevant articles were further skimmed through based on the time factor. All relevant articles published from 1993 to 2017 were selected for analysis.

**Literature Review**
Being part of a global community, a firm’s right to choose a desirable market has been taken away. As the markets are becoming boundary-less, firms are progressively harried to make aggressive moves to swallow stiffening competitive and market pressures (Kurtz & Boone, 2010). In riposte, mimicking a competitor’s move has been a conjoint action to ensure business survival and sustained profits; however, it does not suffice anymore. Nowadays, firms seek strategies that surpass the so-called ‘survival on relationship marketing’. With growing consumer awareness, creativity is not the only solution to warrant pleasing results rather firms are obliged to pass moral scrutiny of their strategic moves. In other words, a firm can survive in the long run if it fine-tunes its profit-oriented corporate strategy with socially responsible intent (Chwistecka-Dudek, 2016). Considering the paradigm shift, this section of the review has accentuated academic contributions to signify peer effects of socially responsible practices on financial performance (Figure 2) to specify the scope for further research.
Corporate Social Responsibility
The term ‘CSR’ has long been a buzzword for academicians and practitioners with multi-scope and contextually varying definitions (Dahlsrud, 2008; Grigore, 2009; Ahmed et al., 2011; Sajjad & Eweje, 2014; Marti et al., 2015; Alshannag et al., 2017). However, the last two decades have witnessed the gradual development of the concept owing to different terms, themes, activities, and associated corporate approaches (Dam & Scholtens, 2012; Hamidu et al., 2015; Marti et al., 2015). In the West, CSR perceived firms as integral to society; hence, their corporate responsibility has gone beyond the sole purpose of generating shareholder profits. CSR is referred to as initiatives taken by businesses to go beyond the legal ambit to satisfy shareholder interests while producing social good (McWilliams & Siegel, 2001; McWilliams et al., 2006; Gamerschlag et al., 2011; Dam & Scholtens, 2012). Likewise, Aguinis & Glavas (2012) defined CSR as a set of context-specific policies and actions incorporated by organizations to equally consider shareholder expectations and socioeconomic & ecological considerations of the community in which they operate.

Unlike the Western conceptualization, CSR scope in developing countries such as Pakistan is undeveloped (Jariko et al., 2017). For a long, CSR has been misunderstood as generous initiatives backed by family traditions and religious beliefs to help the needy (Ahmed et al., 2011). At an individual and corporate level, socially responsible behavior was meant to provide financial assistance to the poor through zakat, donations, and qarz-e-hasana (Ahmed et al., 2011; Jariko et al., 2016; M. Yunis et al., 2018). It was only in the 1990s that the business communities started to visualize the bigger picture and the significant value it could attach to the business and society. Thereby, CSR has expanded not only to poverty reduction initiatives but also to corporate decisions’ influence on social, human rights, and ecological issues (Ahmed et al., 2011).

In South Asia, a popular theme associated with CSR is corporate philanthropy, which is growing at a rapid
pace relative to ethical CSR. Firms find it hard to develop and implement programs aimed at stimulating social development. Hence, ignorant of reality, firms are more inclined towards philanthropic activities. In Pakistan, CSR is a relatively premature concept undergoing cautious evolution from traditional charity interest to corporate philanthropy as an integral component of the business model. Since 2000, Public Listed Companies (PLCs) contributions to Pakistani society have increased significantly from PKR 228m (2000) to PKR 48b (2013) (Figure 3). PLCs including Pakistan Services Ltd, Habib Bank Ltd (HBL), and Fauji Fertilizer Company Ltd (FFC) have been sponsoring various economic and social development projects (Pakistan Centre for Philanthropy, 2013). In recent years, multinational as well as local corporations have strived to increase their CSR shares. However, only a small number of firms are engaged in social welfare-oriented CSR aimed at elevating sanitation, education, poverty alleviation, and healthcare and community development in remote areas of the region.

South Asian CSR is prone to owners’ perceptions and bigoted mindsets, which pinpoints the second important theme i.e., the lack of visionary approach and narrow-mindedness of business owners and/or managers. In Pakistan, corporate heads have poor CSR orientation; most of them view CSR as an obligatory burden rather than a collective responsibility towards society. Their knowledge about the purpose, scope, and significance of CSR is deficient (Ahmed et al., 2011; Awais et al., 2015). As a result, businesses tend to limit their focus only to short-term profits. They overlook the positive role of CSR in improving business, new markets & customers, and increasing business sensitivity to society. CSR orientation is also weak among large organizations. In ignorance of their societal roles that can be fulfilled via socially responsible corporate practices, firms prefer bestowment to research and plan. A potential reason for bestowment could be that it does not require follow-ups and progress reports. They choose to donate rather than to engage in dedicated and committed efforts to identify ways in which society can grow and develop, as a whole. A limited understanding of CSR convinces firms to engage in mere acts of donation and charity only to help the deprived and the poor while overlooking the big picture.

In a developed society, legislative and regulatory frameworks are designed to direct and align corporate behavior under social norms. However, CSR is beyond the legislative framework; it is an ethical binding and moral obligation of corporations to engage in policies that draw positive social impact. To point out, CSR is self-regulatory and self-accountability (Kurtz & Boone, 2010). In developing economies such as Pakistan, CSR is not obligated through a stipulated constitution rather conflated laws on environment, consumer protection, labor and corporate underpin the regulatory framework for CSR. In addition, the State Bank of Pakistan (SBP) and SECP have enforced a few laws to provide appropriate advice on how to operate in a socially responsible manner. Nonetheless, poor regulatory awareness, volatile political conditions, and unstable law & order situations discourage firms from adopting CSR effectively. The government has also been supporting corporations to engage in voluntary CSR initiatives that foster community development and help improve the corporate image and goodwill (Ahmed et al., 2011). However, such support initiatives are small-scale with less convincing social impact.
Peer Effects
The ‘peer effect’ has gained significant attention in the literature about individual behavior and financial decisions (Manski, 1993; Kaustia & Knüpfer, 2012; Leary & Roberts, 2014; Chen & Ma, 2017). Existing studies have alternated peer effect with terminologies such as social interaction, social norm, imitation, bandwagon, herding, mimicking, crowd perspective, conformity mimicking, the influence of peers, and mimetic isomorphism (Manski, 1993; Dai et al., 2018; Chen & Ma, 2017). With global convergence, no firm is operating in isolation, and interaction with a peer has become a common phenomenon for making corporate decisions. Hence, firm-level interaction within and across industries is one of the major reasons for the prevalence of peer effects (Leary & Roberts, 2014; Francis et al., 2016; Chen & Ma, 2017).

Besides interaction, motivation is another important consideration for understanding mimicking behavior among firms. In an industry, firms may choose to mimic their peers for multiple reasons including behavioral intent, learning, reputation, and/or strategic intent (Cajias et al., 2014; Francis et al., 2016; Grennan, 2019). Each of these motives encourages firms to imitate peers for distinct purposes. When firms tend to follow peer decisions due to behavioral biases the situation is identified as behavioral imitation. Learning motives are witnessed in situations where firms use peer information to learn and improve their decision-making; Firms mimicking their peers to improve their access to finance or their market standing are driven by reputational motives (Jiraporn & Chintrakarn, 2013). Lastly, firms conniving against rivals are driven by strategic intent (Francis et al., 2016).

Peers may affect a firm’s policy and strategic choice through different channels (Kaustia & Knüpfer, 2012; Bursztyn et al., 2012; Chen & Ma, 2017). Newly started firms are fresh to the industry and relatively young with little industry experience; they may have financial constraints due to limited access to finance, no default history, and a less established brand image. These types of firms follow peers to devise better corporate strategies, achieve performance goals, build brand image, and survive in the short run. Competitive pressure is an important channel of peer influence (Chen & Ma, 2017). Firms operating in a highly competitive environment continuously strive to come up with new strategic weapons (offensive and defensive strategies) to meet or beat their rivals and to safeguard their competitive edge (Kurtz & Boone, 2010). These firms constantly monitor their rivals to seek meaningful information reflected by peer actions and outcomes; hence, are likely to be influenced by peers (Kaustia & Knüpfer, 2012; Chen & Ma, 2017). In a field experiment research, Bursztyn et al. (2014) explored social learning and social utility as two important channels of peer effect. Their research showed that individuals learn from peers; however, these effects are found to exist beyond social learning. They found a statistically significant impact of social utility and social learning on finance decisions.

When firms operate in a competitive industry environment, their corporate decisions are not only comprised of firm characteristics but also those of their peers. Peer characteristics may include but are not limited to size, strategic visions, competitive position, business philosophy, financial strength, and customer portfolio. In doing so, firms can ensure that mimicked strategies are in line with their performance targets and business capacity. Prior studies have concentrated efforts on theoretically and empirically inquiring peer effects on financial policies related to capital structure (Leary & Roberts, 2014), investment decisions (Chen & Ma, 2017), market entrance (Kaustia & Knüpfer, 2012), firm value (Chintrakarn et al., 2017), financial practices and decisions (Bursztyn et al., 2012), corporate ownership (Wahba & Elsayed, 2015). To point out, firms adjust their policies in response to their competitors’ policy behavior or decisions. These researchers have inquired about characteristics of peer effects on corporate policies; however, trivial importance has been given to the study of peer effects on social policies.

Corporate Social Responsibility and Peer Effect
In the contemporary world, corporations are interested in sustaining long-run profits; thus they have made CSR an integral component of the business model aimed at addressing issues related to ethical business practices, human rights, and social development (A. W. Awan et al., 2012). Given its strategic value, the adoption of CSR is likely to be influenced by peers. Imitative behavior at the inter-organizational level is
elaborated by rivalry theory because rivalry is an important driving force in corporate finance and social decisions. As per rivalry theory, mitigation is a firm-level response to potential risks or threats emerging from the competitive rivalry. Firms rationalize their mimicking behavior by making efforts to neutralize competitors’ actions or to secure their relative market standing (Chen & Ma, 2017). To state simply, varying environmental conditions pressurize firms towards copying their competing firms. From a competitive advantage perspective, peers make an offensive move by committing to a creative strategy. This commitment is likely to provide peers with a differentiation advantage over the firm with the potential to snatch its existing customers (Kurtz & Boone, 2010). Likewise, in a competitive environment, peers’ commitment to socially responsible initiatives can be viewed as perilous to a firm’s market position and relative value. The firm will defend its current marketing position by engaging in CSR practices to lower the risk of competitive threats.

Research has also found that firms operating in a CSR-dense environment have a higher tendency for CSR practices due to increased social interaction with peers, community groups, and labor unions (Husted et al., 2016). For example, Jiraporn et al. (2014) reported that the extent to which firms engage in CSR is significantly affected by the average extent to which CSR policies are formulated by their geographic peers. The impact of geographic peers on a firm’s CSR policy remains significant even after controlling for possible variations due to firm size, R&D, advertising capital expense, and leverage (Jiraporn et al., 2014). To comprehend peer effect, herding behavior theory illustrates an individual’s propensity to simulate a rational or irrational move of a larger group (Leary & Roberts, 2014). In other words, herding is a usual human behavior emerging from the need to conform socially and/or to renounce the pressure for being wrong. In an organizational setting, firms exhibit herd behavior when they desire to be accepted and fit in a social setting rather than to be an outcast. Herding represents a socially channeled peer effect that persuades a firm to footstep competing firms, especially when a firm is naïve to a confronted business situation (Kaustia & Knüpfer, 2012; Bursztyn et al., 2012; Leary & Roberts, 2014; Chen & Ma, 2017). A simple example of the notion can be identified in terms of a business manager with little experience or no market information. The manager observes that other companies are investing in Z projects with a better outlook and promising profits. Since the manager is inexperienced or lacks skills; hence tags onto a common rationale that the fellow companies are less likely to make the wrong move. Therefore, the manager decides to invest in a similar project to typify herding behavior and to preclude blame for being wrong. Following upper echelons theory, Gupta et al. (2018) provide a top management perspective on imitating peers’ decisions. Political ideologies of referent CEOs influence the CSR actions of other CEOs depending on observing CEOs’ level of conservatism and/or liberalism and the extent of shareholder pressures for improved CSR efforts.

Contrasting to given economics-based motives, the information-based theory provides a sociological perspective on the mimetic behavior of firms. This theory entails the notion that firms emulate in response to changing geographic and industry settings in a country. For example, Ding et al. (2018) state that the CSR profile of a firm is affected by several socio-economic factors. These factors are likely to be indicated by the firm’s headquarters location. Their empirical findings support variations in CSR levels across geographic locations (Ding et al., 2018). It is logical for a firm to devise an expansion strategy and actions following the conditions of the country’s environment. Access to and availability of peer information makes it easy for firms to learn and build up their reputation by pursuing peer moves (Francis et al., 2016). Thus, such an organizational stance is likely to portray mimetic behavior. In addition, access to imperfect information is another probable motive for firms to imitate peers to engage in learning behavior as explained in the investor example (Kaustia & Knüpfer, 2012; Bursztyn et al., 2012).

**Corporate Financial Performance (CFP)**

Financial performance is a measure of a firm’s ability to meet its financial objectives in the short run as well as the long run (Alshannag et al., 2017). Firms periodically analyze the financial performance of their past years and industry peers. All publicly traded firms document and publish their CFP analysis in a report form (quarterly/annually) to satisfy different information needs of internal and external
stakeholders. For research purposes, academicians have used different techniques to measure and analyze the financial performance of firms within and across industries (Marom, 2006; Inoue & Lee, 2011).

One way to examine financial performance is an accounting-based measure of a firm’s capability to generate profits while efficiently managing business resources (Aras et al., 2010). Typical indicators of accounting-based CFP are return on assets (ROA), return on equity (ROE), asset turnover, net profit margin (NPM), and net operating margin (NOPM) (van Beurden & Gössling, 2008; Van der Laan et al., 2008; Aras et al., 2010). The application of accounting-based measures is criticized for providing only a historical data-based reflection of business performance. Since different firms adopt different accounting procedures; hence, this method is less likely to produce comparable results at the firm level. It also ignores varying risks associated with and characteristics of different industries and sectors. Therefore, it is a less reliable technique for measuring CFP and is prone to potential managerial manipulation (Aras et al., 2010).

Unlike the accounting-based measure, market-based CFP is an indication of how investors examine the ability of a firm to generate future profits (Inoue & Lee, 2011). This measure is less prone to managerial manipulation and different accounting techniques that firms adopt. Common market-based measures include market return, share price increase, the price-earnings ratio (P/E), and earnings per share (EPS) (van Beurden & Gössling, 2008; Galant & Cadez, 2017). It is used to predict business performance based on investor perception which may not suffice alone; hence, it is a weak measure of CFP (Aras et al., 2010). Shortcomings of these measures can be incapacitated through value-based measures that estimate performance with the inclusion of financing risk-return. These measures include cash-flow returns on investment, Tobin’s Q, shareholder value approach, and market value added (Galant & Cadez, 2017).

The TBL model has set boundaries on firms’ performance by creating a social circle; it indicates that firms have to operate in a socially responsible manner if they wish to be productive and competitive (Ahmed et al., 2011). In addition, effective CSR initiatives are a source of goodwill that helps companies improve their performance. However, the extent to which socio-economic aspects should be made part of business decisions is debatable (Uadiale & Fagbemi, 2012). Therefore, it is imperative to determine the nature and direction of the association between CSR and CFP.

**Corporate Social Responsibility and Financial Performance**

In a competitive environment, the financial performance of a business is continuously affected by the corporate strategies it adopts to survive. One of these strategies is CSR, which is recognized as a response to public interest by making socio-economic concerns a part of business decisions. However, researchers and practitioners question whether and to what extent socially responsible policies are financially advantageous or disadvantageous (Aras et al., 2010; Chen & Wang, 2011; Barnett & Salomon, 2012). Likewise, the last three decades have witnessed a paradigm shift in stakeholders’ interest in the degree of influence that social responsibility is claimed to have on the financial performance of firms (Marti et al., 2015; Al-Hadi et al., 2017).

**Theoretical Evidence**

In the early literature, Friedman proposed Shareholder theory - a classic argument depicting CSR as an unnecessary initiative that reduces shareholder profits (Flammer, 2015). Friedman debated that social engagement is competitively disadvantageous for firms as it only increases business costs. He also argued that social responsibility incubates agency problems as the pursuit of societal betterment deviates managers from their objective of maximizing shareholder wealth (Friedman, 2007; Barnett & Salomon, 2012). To refute this, Freeman’s Stakeholder theory has emphasized the need to manage good relations with groups that have an interest in the business (Chen & Wang, 2011; Galant & Cadez, 2017). Barnett & Salomon (2012) argued that socially responsible behavior is one of the major ways of developing trustworthy relations with stakeholders. A firm with strong stakeholder relations tends to develop intangible assets that lead to better financial results and serve as a source of competitive advantage. For example, under the natural resource-based view, Taylor et al. (2018) argued that firms aligning their social
responsibility practices with the business strategy and standardized CSR measures are likely to achieve an increase in their firm value. In support, their empirical results using Tobin’s q reported an association between disclosure of CSR scores and higher firm value (Taylor et al., 2018).

However, Cavaco & Crifo (2014) suggested responsible firm behavior towards suppliers, customers, and the environment as a substitutable input of CFP; hence, it has the potential of conflict over or between stakeholder investment. This conflict is less likely to occur if firms exhibit responsible behavior towards customers, suppliers, and employees which can be recognized as complementary input of CFP. Corresponding to the New Stakeholder Theory, CSR-CFP linkage is expected to produce mutual benefits if a firm succeeds in successfully balancing the demands and expectations of different stakeholders (Cavaco & Crifo, 2014).

Another extension of the theory is an Instrumental Stakeholder perspective that has identified CSR as an active contributor to corporate performance. According to this view, CSR initiatives benefit stakeholders; however, their fundamental purpose is to profit shareholders (Flammer, 2015). In agreement, Lee et al. (2013) implied that socially responsible behavior with unequivocal stakeholder concerns results in better CFP by saving costs and/or improving business reputation. In recent literature, Resource-based View (RBV) has also been adopted to underscore the significance of CSP-CFP linkage. Flammer (2015) has characterized social performance as a valuable resource that helps firms improve their brand image while increasing business profits. This view is also applicable to Pakistan where CSR is helping firms improve organizational performance by generating intangible resources. With social capital accumulation, firms may engage in the creation of an unbeatable workforce to achieve sustainable organizational performance (Saeed & Arshad, 2012).

**Empirical Evidence**

Till-to-date, considerable academic attention has been paid to determining the theoretical and empirical underpinning of CSP-CFP association; however, these studies have produced mixed results (Alshehhi et al., 2018; Aras et al., 2010; Barnett & Salomon, 2012; Cavaco & Crifo, 2014; Cho et al., 2019; Galant & Cadez, 2017). Few studies have found a positive correlation between CSR and CFP (Kapoor & Sandhu, 2010; Chen & Wang, 2011; Uadiaye & Fagbemi, 2012; Sun, 2012; Mallin et al., 2014; Saeidi et al., 2015; Cho et al., 2019). They have substantiated CSR as a source of strategic advantage, customer satisfaction, and business reputation; thereby leading to improved financial performance. In a cross-country analysis of 90 socially responsible Islamic banks, Mallin et al. (2014) inferred positive CSP-CFP association with an increased firm commitment to key dimensions of vision/mission and senior management attitude. However, on a comparative CSR Index basis, Pakistani firms scored the lowest (both voluntary and mandatory). Following geographic identification strategy, Jiraporn et al. (2014) investigated the impact of CSR on firms’ credit ratings. Their findings showed a statistically significant and economically meaningful impact of CSR on credit rating. Their results showed that for each unit increase in a firm’s CSR it's credit rating improves by as much as 4.5% (Jiraporn et al., 2014). In another study of 20 Ghee and Fertilizer firms, Awan & Saeed (2015) concluded that CSR activities have a positive impact on the financial performance of Pakistani firms. On CSR-driven financial performance, Lins et al. (2017) argued that a firm’s trust relationship with its investors and stakeholders tends to pay off during times of financial crisis. In their analysis of non-financial firms’ data for the 2008-2009 period, Lins et al. (2017) reported higher profitability and growth for firms with high-CSR activities. In contrast, other scholars have attained negative CSR-CFP associations normally attributed to agency costs (Lioui & Sharma, 2012; Awais et al., 2015). Their arguments empirically support the deleterious effects of associated social costs on business performance (Kapoor & Sandhu, 2010). Nevertheless, other studies have found no significant relationship (Aras et al., 2010; Surroca et al., 2010; Soana, 2011; Iqbal et al., 2012; Lee et al., 2013), concave (Flammer, 2015) or U-shaped association between CSR and CFP (Barnett & Salomon, 2012).

In developed and developing countries, researchers are indecisive about the nature of the CSR-CFP nexus (Marom, 2006; van Beurden & Gössling, 2008). In general, this irresolution is caused by different
definitions (conceptual & operational) and measurements of CSR and CFP (Galant & Cadez, 2017). On one hand, CSR is a relatively qualitative term with varying definitions, dimensions, and themes pursued by firms across different countries. CSR disclosure is another challenge; Taylor et al. (2018) argued that voluntary CSR disclosures may benefit firms by signaling the quality of their financial strategy and management to their investors. In their analysis of 432 firms, Taylor et al. (2018) found that CSR can help improve organizational value if firms treat social responsibility as a strategic engagement. However, regulatory and legislative requirements for voluntary/involuntary disclosure vary from country to country (Marom, 2006). Hence, information regarding CSR initiatives of public and private sector organizations is not readily available in every country. In Pakistan, most publicly traded firms briefly document their CSR initiatives in their annual reports. In the absence of a standardized definition, researchers have been adopting different parameters and measurement tools to operationalize CSR (Galant & Cadez, 2017). On the other hand, profitability (short-term and long-term) is increasingly used as a standard parameter for CFP (Marom, 2006). However, the use of selective accounting and market measures to analyze CFP is one more reason leading to contrary empirical inferences on CSR-CFP. Nevertheless, mixed results on CSR-CFP are due to conceptual disparity on CSR, heterogeneous measurement and inadequate information access.

**Conclusion and Research Limitations**

Up till now, substantial academic articles have been produced on the emergence, purpose, rationale, and corporate implications of socially responsible behavior. However, these efforts have been short of how peers sway firms to steer corporate focus towards socio-economic and environment-oriented initiatives. This review paper is a reminder of corporate interdependencies created by global convergence and the call for adherence to the TBL model.

In the 21st century, CSR is a label that every growth-oriented and strategically far-sighted firm wishes to wear as an inducement for socially aware customers, investors, employees, and other interest groups. However, it is not a piece of cake to put on such a label especially when a firm operates in a highly competitive and dynamic business environment with well-informed stakeholders. In developing economies such as Pakistan, CSR is mainly driven by philanthropic activities with few exceptions to understand the true meaning of it. Local firms are following the footsteps of multinationals to promote social development; however, their pursuit is hindered by misconception, visionary dearth, dogmatism, and inadequate legislative guidance. Besides issues of CSR pursuit, one of the highlighted associations in the existing literature is the CSP-CFP. Despite years of rigorous research, academicians are still inconclusive about the nature and direction of the relationship between CSP and CFP. This indecisiveness is due to differences in the conceptual and theoretical underpinning of CSR, varying measurement approaches of CSR & CFP, and limited generalizability of research results.

A review of the literature shows that firms pursue peers either to beat the competition and safeguard their market position or to exhibit herd behavior. Sometimes, access to insufficient information or managerial concerns regarding reputation also require firms to follow their rivals in the hope of being led to the right path. Be it strategic, reputation, learning, or behavioral motives, firms look up to their peers to devise better strategies for growth and survival. However, enthralled with peer moves to engage in CSR is implausible to yield sustained growth unless peer characteristics are also considered. The notion can be rationalized with the fact that peer strategies may not always harmonize with a firm’s business philosophy, size, strategic vision, and performance targets. Therefore, due consideration is needed to be given to similarities and differences in peer and firm characteristics to draw convincible results.

Further research is suggested to assess (1) the conceptual development of CSR among corporations (2) identify, characterize, and categorize CSR initiatives as human welfare and social welfare (3) regulatory requirements and corporate awareness regarding voluntary/involuntary disclosure (4) senior management and employee commitment (5) legislative support for socially responsible behavior.
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