The impact of corporate social responsibility on short-term profitability

Elvin Ismayilov,
Masood Salman Meo Rajput

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Supervisor: Henrik Höglund
Abstract

Every actor of the society has its own expectations about the companies. Shareholders are interested in the maximization of the profitability, managers are interested in sustainability, and partners are interested in fulfillment of the business ethics. And the company with well-structured CSR policy should be able to meet expectations of all stakeholders. This can cost large part of the company's resources. It can potentially impact on company’s profitability whether positively or negatively. Using the quantitative research method we tried to explore the impact of CSR policy on the short-term profitability. Our research question is composed as:

What is the relationship between CSR and short-term profitability?

The main purpose of this study is to analyze and present positive or negative links between CSR policy and corporate financial performance (CFP) using different profitability indicators. We analyzed impact of weighted average CSR score and environmental rank on the short-term profitability.

The theoretical framework of the thesis consists of different theories, such as stakeholder theory, shareholder theory, agency theory, legitimacy theory and etc. The research conducted in accordance with the functionalist research paradigm, the objectivist ontological and positivist epistemic research philosophies using the deductive approach.

Our result indicates that there negative relationship between CSR performance and short-term profitability. Also we found that CSR policy can negatively impact on return on assets. This in turn could have negative implications on shareholders and stakeholders. No positive correlation between CSR policy and profitability observed. All in all, the expenses on CSR policy have a negative impact on indicators of financial performance.

Keywords: CSR, CFP, profitability, agency theory, stakeholder theory, stakeholder theory, legitimacy theory, environmental policy
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Elvin Ismayilov
elvin.work@mail.ru

Masood Salman Meo Rajput
masood6dpk@gmail.com

For queries concerning to the thesis, email both authors. For example, requests concerning to more detailed statistical outcomes, as well as graphical methods, are obtainable if requested for.
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  CSR - Corporate Social Responsibility .................................................................................. 44
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  ROA - Return On Assets ........................................................................................................ 44
  ROE - Return On Equity ......................................................................................................... 44
  AT - Asset Turnover .............................................................................................................. 44
  GM - Gross Margin ............................................................................................................... 44
1. Introduction
We are now, more than ever, aware of the potentially negative impact of business on the environment, whatever the nature or size of the business. There can only be positive results from developing sustainability – from benefiting your own bottom line to benefiting tomorrow’s industry to benefiting the environment in which we all live (Tony Blair, UK Prime Minister, 2000).

In this part of our research we will try to give constructive explanations of problem backgrounds, why we choose this topic, what is the relevance of the topic and so on? The introduction also includes a brief explanation of main theories related to our topic. Next, we will talk about the research question and purpose of the research. This thesis is written by two master students of Umeå School of Business and Economics. Most of our skills are related to financial statement analysis, risk management and business administration. That is why we were interested in the topic which will give us opportunity to use skills we are good in. However, we also were interested in sustainable and transparency business technologies. In this case we decided to combine possibilities given us by our background and our concernment about implementation and development of CSR policy.

1.1. Problem background
Taking care of the environment and surrounding people is an important concept not only for some organizations, but also for individuals. This concern for the world around us and its constituent parts is something natural. It can have many forms and can be interpreted in different ways. This concept includes both individual vision of a person and socially responsible behavior of organizations in general (Bénabou & Tirole, 2010, pp. 15-16). Problem is very widely discussed and linked the different theories and concepts. WE will discuss this theories in next chapters. In this part of our thesis we try to give main definitions and some theoretical background.

1.1.1. What is CSR?
According to the Löhman and Steinholtz (2003, p. 15-27 cited in Bergman, Bäckström, Umeå School of Business and Economics, 2012) CSR is a universally used term with many divergent definitions and interpretations. The word CSR originated as social responsibility and is recently enacted in many different Educational disciplines inclusive of accounting, economics, environmental management, ethics, finance, law marketing, management, organizational behavior, political science, Psychology and strategic management (McWilliams, Siegel, & Wright, 2006 cited in Wendy L. Patterson Shirey, 2013, p. 25). One definition of CSR is “The social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time.” (Reynolds & Yuthas, 2008, p. 47). This responsibility extends to not only companies managers but also to each stakeholder. To interpret easily definition of CSR one can divide it into three pillars be formed comprising "People, Planet, Profit" as vertices. These pillars can cover financial activities, social affairs and environment policy. CSR also can be considered as business system that enables to product and distribute of goods and services for common betterment by following ethical norms and sustainable management. (Smith, 2011, p. 10) CSR is one of the ways of maintaining legitimacy by paying attention on stakeholder interests. Consequently the company with good CSR policy succeeds in navigating stakeholders concerns while implementing its activity.

Most of companies disclosure information about CSR annually or semiannually. That is one of ways of attracting attention of stakeholders to CSR activity and formulate good image of companies.
in society. Nowadays CSR in not only about publication of annual CSR reports. Is already integrated in overall business strategy of many companies. In the past the most important was to follow legal requirements. Especially in industries with bad impact on environment. However, in the sample we use one can see that big part of companies don't represent such a harmful industries. That shows that CSR concept is developing permanently. From this point of view it makes our research more relevant. Because if the concept is developing then new and more detailed researches on this topic are needed. In our research CSR is studied from profitability side. And there are two opposite positions about the link between CSR and CFP. According to Friedman (1962) profit is the sole motive of the company for shareholders benefit. And in accordance with that any extra expenses can lead to the decreased profitability. However there are wide range of researchers who would argue with this kind of position. There are a lot of researches, authors of which conclude that companies with well-structured CSR policy have better profitability performance. One can find many researches about CSR conducted over last years. The conclusions sometimes totally differ. Also there are many different methods and tools of studying the relationship of CSR and CFP. It makes the topic more complicated. And that is why the authors of this thesis decided to take into account as much factors as possible and the experience of different generations of researchers.

1.1.2. CSR in Europe and USA
There are several ways to differentiate corporate social responsibility in Europe and the United States (U.S). In U.S. the company’s emphasis on discrimination stopping from bondage and which did not present in Europe that’s why discrimination is not central point in European companies. According to Matten and Moon note, “In a comparative study of corporate self-presentations on the Internet, Maignan and Ralston (2002) found that while 53 percent of US companies mention CSR explicitly on their websites, only 29 percent of French and 25 percent of Dutch companies do the same” (Matten & Moon, 2008, cited in Danko, 2008, p. 45). But recently few companies outside U.S implemented CSR practice and language. Companies in U.S clearly state assurance to CSR but on the other hand European company’s interpretation CSR implicitly. There are many causes occur to find why the companies in Europe are implicitly state and explicitly state about CSR in U.S. In U.S, government on put pressure on corporations to adopt an important role in CSR. Though, there is opposite in Europe because governments perform an important role in social and economic affairs and sometimes European corporations instructed to play a socially effective role. Therefore, there is not necessary for the European corporation to openly broadcast CSR when it already showed performance about CSR in past. It seems very important that if the stakeholder put pressure to motivate corporations to do CSR reporting and it is explicit CSR which strongly pivots upon deliberate corporation action. On the other hand, implicit CSR requires corporations presenting “within wider formal and informal institutions for society’s interests and concerns... it normally consists of values, norms, and rules that result in mandatory and customary requirements for corporations to address stakeholder issues … corporate actors in collective rather than individual terms” (Matten & Moon, 2008, cited in Danko, 2008, p. 45-46). However, actions about CSR performance by European corporations and U.S may possibly comparable, implicit CSR would not reflect the act as a deliberate decision and voluntary as concern to the corporate environment, but the explicit CSR are concern as voluntary, deliberate and sometimes strategic. Explicit CSR in U.S are known as strategies and voluntary programs performed by corporations that gather business values and social values and tackle matters which are concern as being part of the social responsibility of the corporation (Matten & Moon, 2008, cited in Danko, 2008, p. 46).
1.2. Problematization

The problematization of this research concerns whether companies can conduct good CSR policies and at the same time not worsen their financial performance. It is important for authors to analyze how changes in CSR policies will affect the profitability of the company. In our opinion, this research is of value not only from the point of view of the company, but also from the point of view of all stakeholders. All participants seek to increase their own profit. And therefore, it is of fundamental importance for the participants to have an idea of how the relevant decisions will affect the final results. After all, in the end, the value of one of the main tasks of the company is to ensure maximum profitability (Jensen, 2000, p. 84). The questions raised in this thesis have been studied for a long time and recently such studies have a wide relevance. However, despite this, the results are rather contradictory. It is for this reason that the authors have attempted to use a research method that combines the methods of various previous studies. In particular, this concerns the selection of profitability indicators and the CSR indicator. The research was limited to short-term profitability of companies. Perhaps this deprives authors of the research for different periods and compare their relationship. But this choice is explained by the fact that in the context of limited resources, companies need to justify investing as quickly as possible. In this regard, the question arises as to how far this is expedient for such costs in terms of short-term profitability. Second, the limitation in the short-term profitability of long-term news allows the author to study in more detail the relationship between CSR and profitability within a relatively short period of time. That is why we decided to dedicate this study to filling this gap in the study of the financial aspects of CSR policies.

1.3. Research Question

Nowadays the term of CSR is widely discussed and generally accepted. However, not all companies pursue a CSR policy, or they do not pay it enough attention. This is despite the fact that the need for a good CSR is becoming increasingly evident to the public. Many of those who argue for the need for CSR agree that it can positively influence the financial results of the company. This can happen for example because of the increasing loyalty of society. However, until now, it is not well understood how such a policy affects short-term profitability. In other words, the issue of how the changes in CSR will affect the current financial indicators is poorly understood. That's why we decided to focus on the short-term profitability indicators. The authors believe that well-structured CSR policy can run company into profitability and positive changes of financial indicators. Our research question is:

What is the relationship between CSR and short-term profitability?

This question leads us to test different profitability indicators of the companies, trying to find possible link to CSR policy. Our research question also based on the literature review we have done. Answers to this question can lead companies to take care about their CSR and environmental policy.

1.4. Research Purpose

In order to survive companies should have at least satisfactory relationship with the society and the government. Business ethics and expectations of the society vary from country to country. And in order to follow this expectations the company should waste significant part its resources. That is why it is very important to know how this expenses impact on the company’s performance. The purpose of this study is to analyze and present positive or negative links between CSR policy and
corporate financial performance (CFP) using different profitability indicators. Also the authors try to analyze the influence of CSR on the companies in relation with different theories. Such as stakeholders’ theory, agency theory, Institutional differences hypothesis. In order to reach this purpose we formulate different hypotheses and try to test them. Our purpose is not only to test the CSR and CFP relationship. But also to combine methods of different previous studies. This give us opportunity to develop previous studies and to take into account various factors.

1.5. Delimitations
As any research our research also has its delimitations. Our research tests relationship between current CSR on policy on current CFP. Because of the time limit we do not have opportunity to analyze the impact of CSR on long time period. Also in this research the authors don’t try to analyze how differently CSR influence on different companies. We analyze how CSR impact on the financial performance in general. For our research we use financial data of 100 companies which have good CSR policy. Also all of the companies are from USA. That means the differences in financial performance of companies cannot be explained by territory factor. Also in this study we use only secondary data, which means that means we did not take into account opinions of the shareholders or managers.

1.6. Disposition of the Thesis
First one can see introduction part which provides main ideas of research, definitions of main concepts and background of the study. The following chapter concerns scientific methodology and research design, which is very important for each study. After that we give theoretical framework of the topic, where we discuss main theories and their development. The fourth chapter consists of explanation of practical method which helps to present the research process. We will then present results of our research and data analyze. The results will be analyzed and discussed in the next chapter. And based on all above we will produce our conclusions.
2. Scientific methodology
In this section we consider the methodological basis for our research. Before we discuss about what scientific methodology we adhere to, we will discuss about why this is so important for any study. This chapter also includes information about our research paradigm. We tried not only to list our assumptions. But also explain the choice of one or another approach or vision. Our choice mainly serves the interests of our research. In other words, the authors proceeded from the tasks and questions posed in this study.

2.1. Choice of topic
Choosing a topic for the thesis, the authors proceeded from their capabilities and the relevance of the problems. The passed courses in the field of finance, corporate management pushed us to choose a topic closely related to these areas. We wanted to connect our knowledge and skills with the most pressing problems in the modern economy and in society. In modern conditions of limited resources, CSR does not lose its relevance. On the contrary, more and more companies are paying attention to their CSR policy. To formulate the topic, the authors decided to compare their interests and opportunities. We wanted to choose a topic that is really relevant for the society as a whole and at the same time it will allow us to apply our skills in the research process.

With such an installation, we began to review the available literature. A review of the literature showed that the authors of the earlier researches could not come to a consolidated conclusion regarding the impact of CSR policy on the company. Different studies conducted at different times show quite opposite results. Specially, we were interested in the fact that the authors of previous works had not comparable conclusions about the impact of CSR on the financial performance of companies. In other words, the literature review did not answer our question: "Does CSR affect the financial performance of the company? And if so, how?"

It is also important to emphasize that CSR has great importance not only for the companies themselves, but also for society. This suggests the importance of having an answer to such an important and decisive question. Recently, the number of authors are investigating this topic which increased more research in this field. This indicates a growing interest in this issue. Since we are students with the skills of analyzing financial data and managing business processes, this topic seemed most interesting and relevant for us. In addition, sustainability is one of the central issues in the strategies of large companies. Interest in this issue adds the fact that not understanding the importance of CSR can run us into misunderstandings between shareholders and financial managers of companies adds interest in this topic.

The authors have certain knowledge and skills can take to some preconceptions. The authors acknowledge the fact that these preconceptions can affect the objectivity of research. For this reason, the authors tried to be as neutral as possible and to take into account all available points of view and opinions.

2.2. Perspective of the Thesis
This paper mainly focuses on the perspective of CSR and the variables which are involved with CSR. Today, developed countries are appreciating the corporations which are supporting and taking responsibilities for the good sack of society. That increased our interest to find out, how the corporation can make good relationship with society without decreasing short term profitability. Because of the fact that this topic is relevant for both stakeholders and shareholders our research will be interesting for both groups. From shareholders perspective it is necessary to know if
expenses on the CSR affect CFP or not, and if yes how significant is this effect. Investors can be interested in the results of this research because it can help them in decision making. From managers perspective it can prompt them how to drive cash flows and social relations. Also it can also influence expectations of the society. We believe that if stakeholders have particular information about the impact of CSR on financial performance of the companies it will lead to decrease in agency problem. In order to make it as utility as possible we tried to be objective and we tried to make the results applicable for future developments.

2.3. Research Design: Quantitative
In respects to the research design, authors can mention two main types of design: the quantitative and the qualitative. A quantitative design is generally perceived as related to the natural sciences because of the resemblances of the procedures practical by the natural scientist (Bryman, 1984, p. 77). It is a research design that is linked to the epistemological assessment of positivism where the examiner can be objective and reserve himself from the studied occurrences (Bryman, 1984, p. 77). A qualitative design instead takes a different point of view, inadequate to appreciate a definite background through the interpretations of a convinced actor (Bryman, 1984, p. 78). In compare to the quantitative design, the qualitative is generally 17 associated to the interpretivist viewpoint (Saunders et al., 2012, p. 163). Just before distinguish between the qualitative and the quantitative designs, a quantitative design practices with statistical data, while the qualitative in contrast emphases on procedures that gather or custom statistics that is non-numerical (Saunders et al., 2012, p. 161). Additionally, there is a dissimilarity in what the two sorts of research designs pursue to discover. Usually, the quantitative method is adopted to discover large samples where the objective is to describe of some type of simplification about the population that has been experimented (Hyde, 2000, p. 84). By itself, it proceeds a diverse interpretation than the qualitative method, in which one pursues to clarify a matter further in depth and with additional aspect (Hyde, 2000, p. 84). For itself, there is a major difference between the two in respects to the manner data is studied. As the identified research question mentions at, this thesis will be using a quantitative design whereby the identified area is to through earlier research established up hypotheses that are to be experienced through statistical examination. This is a result of the specified philosophical expectations, which are logically closely in track with what classified a quantitative design. Additionally, it is significant to identify that even if a statistically important consequence is found, it does not mean to suggest any that a fundamental relationship has been found, neither it does it mean that the outcome is economically important (Lukka & Kasanen, 1995, pp. 79-80). In isolation, the authors identify possible questions inherent with the design, and they will effort to improve these whenever it is possible.

2.4. Research Philosophy
Before carrying out any research, the author must formulate his/her attitude to the nature of things. And it means not only the nature of science. Here, the attitude of the researcher to the nature of things in society is also implied (Holden, 2004, p. 3). We position ourselves on the regulatory side of a spectrum. Thus, we believe that societies are constantly progressing, developing and actively changing. In this he contributes to human rationality. These changes can be of a different nature. So they can be more or less radical. We believe that changes in the society mostly occur regularly. This means that the changes are not due to the fight against public structures. These changes take place gradually due to the modification of the previous structures. (Burrell & Morgan, 1979, in Holden & Lynch, 2004, p. 3). The authors suggest that the development of the theory of responsible business conduct and proper attitude to the environment is the result of man's desire to unite for
rational tasks contributing to the improvement of living conditions not only for himself but also for future generations. In this case, this is further evidence that the researcher needs to pay special attention to the choice of methodology. This will allow other researchers to assess the suitability of this study and understand the author's assumptions. (Holden, 2004, p. 18).

2.4.1. Ontological Assumptions: Objectivism
Ontology is one of the most widely discussed areas in research philosophy. Ontology is very important for every research because it is the researcher's view of the nature of reality or being (Collis & Hussey, 2014 p.47). The discussion of this term is related to ancient philosophical questions about whether there is a world or a person capable of thinking has invented it (Burrell & Morgan, 1979, Holden & Lynch, 2004, p. 5).

Basically, there are two views on ontology: objectivism and subjectivism. Objectivism suggests those social objects are independent of social actors. While according to subjectivism the social phenomena studied depends on the views, knowledge and behavior of social actors (Saunders et al., 2012, pp. 130-132). From the very beginning of our study, we were confident that we will adhere to objectivism. Which means that we admit that social representations are external to the participants. For us, it is obvious that the world existed without the presence of intelligent beings, capable of perceiving it. That corresponds to our realistic ontological position.

Most researchers in finance and management considered by us also adhere to this point of view. This is due to the fact that research conducted in these areas requires the possibility of direct verification of theories through thorough testing (Ryan et al., 2002, p. 8). Also our research assumes the verification of the theory with the help of digital data. In analyzes we conduct, we do not intend to use the opinions of the participants, which will allow us to adhere to objectivism, as this chapter assumes.

2.4.2. Epistemological Assumptions: Positivism
Epistemology the researcher's view regarding what constitutes acceptable knowledge (Collis & Hussey, 2014 p. 47). Epistemology is closely related to sources of knowledge. In other words, what conditions must be met in order for knowledge to be considered reliable. This raises questions about the nature of knowledge (Hughes & Sharrock, 1997, in Holden & Lynch, 2004, p. 5). It is generally accepted that there are four research philosophies describing how we receive knowledge: interpretivist, realism, positivism and pragmatism (Saunders et al., 2009, pp. 107-108). According to interpretivist, there are differences between people and objects of knowledge, which means that it is necessary to find understanding as well as to determine the subjective meaning of what is happening (Bryman & Bell, 2011, pp. 16-17).

The next philosophical position is realism. Before giving a definition of realism, we must say that there are two kinds of realism. The difference between these types lies in how much you can trust the senses and in their ability to deceive us. One of them is called a direct realism. According to the direct realist, what we feel and is reality. Opposite realism is called a critical realist. According to a critical realist, our senses may deceive or mislead us (Saunders et al., 2009, p. 115). Pragmatism in its turn presupposes the adoption of various philosophies depending on the task and the agenda. Finally, if the researcher has a philosophy of positivism, he / she assumes that knowledge is created by studying things that can be observed, otherwise it will not lead to the use of data (Saunders et al., 2009, p. 109).
We think positivist philosophy is suitable for the purposes of our research more than others. The ability to observe the phenomenon under investigation is of great importance. Because in this way, this phenomenon can be a source of reliable knowledge (Saunders et al., 2009, pp. 113-119). And this is necessary for our analysis. Since, in these analyzes, we process the data, trying to find patterns and relationships between different data. Positivism is mainly based on natural sciences, where researchers mostly observe society. They try to understand it by identifying patterns and find causal links (Burrell & Morgan, 1979, p. 5).

This paper examines several indicators of financial performance as well as CSR indicators. Accordingly, the authors conduct observations trying to find the relationships or dependencies between these indicators, trying to answer the questions posed. In addition, the authors analyze digital data, not subjective opinions. Taking into account all the above justifications, the authors consider that conducting such a study requires adherence to positivist philosophy.

2.4.3. Axiological assumptions
Axiology defines the researcher’s view of the role of value in research (Collis & Hussey, 2014 p. 48). The positivist position chosen by us assumes to be value free. In this type of thesis, the researchers took a position not to depend on the data and maintain an objective stance. During the work the authors tried to be as independent as possible. This primarily means independence of one's beliefs and views on this topic. We believe that only in this way we could count on objective research results that were not distorted by the influence of observers.

2.4.4. Research Paradigm: Functionalism
It is customary to distinguish four different points of view for the analysis of society. These include: radical humanist, radical structuralism, interpretivist and lastly the functionalist (Burrell & Morgan, 1979, p. 23). Interpretivist basically try to explore the social world while being subjectivists. Also, this position is very suitable for anti-positivist and voluntarist views (Burrell & Morgan, 1979, p. 28). Radical humanists are distinguished by the fact that they focus on radical changes. At the same time, their points of view often coincide with the interpretations. Radical humanists in turn differ from radical structuralisms in that structuralisms adhere to the positivist and determinist stance (Burrell & Morgan, 1979, pp. 32-33). The last paradigm is functionalism. This corresponds to the objective point of view, which presupposes the search for explanations for phenomena taking place in the world. At the same time functionalism is positivist and determinist (Burrell & Morgan, 1979, p. 26). In this thesis are functionalism is followed because it is in line with the intentions of the authors. Researchers adopting the functionalist paradigm agree that companies make adaptive structural changes to their environment. That helps them to be more in fit with their situations and maintain effectiveness (Kuada, 2009).

2.5. Research Approach: Deduction
A deductive approach is concerned with “developing a hypothesis (or hypotheses) based on existing theory, and then designing a research strategy to test the hypothesis (Wilson, 2010, p. 7). This approach begins with the study of a well-known theory or phenomenon. Based on the studied, new hypotheses are being created. Which are tested by observers. Through tests, researchers either confirm or reject the hypothesis (Snieder, 2009, p. 16). Some authors explain the deductive approach as reasoning from general to the particular, whereas inductive reasoning is the opposite. A simplified scheme of stages in the deductive method is shown in the Table below.
Table 1 - Stages in deductive method

| Theory | Hypothesis | Test/ Observation | Confirmation/ Rejection |

Inductive research basically does not concern hypotheses in contrast to the deductive approach (Pelissier, 2008, p. 3). However, in case of inductive approach the researcher is not sure of the nature and type of the findings of the research until the study is completed (Lodico, 2010, p. 10).

Even a superficial review of these approaches shows that the authors of this thesis must adhere to the deductive method for achieving the objectives of this study. Obviously, this approach is well suited to our chosen research project, which is a quantitative method, using which one can test these hypotheses and draw conclusions from subsequent results. It is important for us to verify, through analysis, the impact of corporate social responsibility on the company's financial performance. To this end, we began by studying the accumulated theoretical basis. These theoretical data enabled us to formulate hypotheses that were tested in this study.

2.6. Ethical & Social Considerations

In this study, the authors attach great importance to ethical standards, especially business ethics. In a modern economy, large companies unite different groups of people with different roles in society. And because of that it is very important to follow commonly accepted norms. When doing research project ethics matter (Israel & Hay, 2006, p. 7). Ethical issues may arise in various cases and it is important to not overlook it when conducting the research (Bryman & Bell, 2011, p. 122). For example during the all process the authors need to keep integrity, confidentiality, voluntariness and anonymity (Bryman, 2011, p. 131).

The authors of this thesis are self-governing, and have selected the topic constructed on their individual interests. The thesis is not completed in any associating to any group of business or organization, and is consequently relieved by potential clashes that can twig from such effort. There is thus no association that can possible lead to biasing outcomes or that it can be understood as such (Bryman & Bell, 2015, p. 149). Convenient remarks on the thesis concerning to the topic and the study procedure have originate from the supervisor of this thesis, and these clarifications have obviously been of countless practice to the authors. By itself, the thesis is the effort of the authors, however with some direction by the supervisor.

Moreover, as objectivity is of essence, the authors of this thesis notion that it is key to stay transparent in the research process, which will later be expanded upon in the empirical method connection to the ethical and social considerations. Key aspects to the study, such as the data set as well as the codes used in gathering the results are all available to readers of the thesis. These issues, which pertain heavily to the empirical method of the thesis, as well as the results, are elaborated on in each of the sections.
3. Theoretical framework

In this thesis we focused on measurement of the impact of corporate social responsibility (CSR) of the companies. The literature review provides summary of previous studies focused on this topic. In order to arrange a literary excursion into this topic, we will try to go over the development of scientific thought on this topic, to give some definitions necessary for the exact concept of the problems considered in this paper. Literary review is divided into thematic parts for a more clear perception of the component parts of the topic.

3.1. Stakeholder Theory

“Stakeholder theory is a theory of organizational management and ethics” (Phillips & Freeman, 2003, p. 480). In this subparagraph, we will try to optimally disclose stakeholder theory. So, what is a stakeholder? And who are these stakeholders? The earliest and most widely distributed definition can be found in Freeman's book (1984). He, in turn, cites internal memo report of the Stanford Research Institute (SRI) in 1963. Here stakeholders are called groups, without which the organization ceases to exist. This definition covers too many people. Therefore, most scientists identify stakeholders as "any group or person who can influence or influence the achievement of the organization's goals" (Freeman, 1984, p.). And in order to understand who can be a stakeholder, it is necessary to divide them into groups in accordance with their relationship with the organization. Such groups can be customers, employees, local communities, suppliers and distributors, shareholders, etc. But this is by no means the entire list of groups that can be considered as stakeholders. In addition to the above, you can specify and groups such as Business partners, Future generations, Competitors or, for example, Stakeholder representatives such as trade unions or trade associations of suppliers or distributors (Friedman, 2006).

Initially, the activities of the business mainly amounted to a profit maximization. Confirmation of this served as Milton Friedman's (1970) stockholder theory. According to which business should focus primarily on maximizing profits and increasing the wealth of shareholders. Of course, such a theory at one time was very logical. However, over time a new theory emerged, called the stakeholder theory (Freeman, 1984). The new theory was more suitable for uniting the interests of society and the desire of companies to optimize business.

Stakeholder theory suggests that companies should take an active part in the development of social benefits. Thus, improving the business environment itself (Harting, 2006, p. 43). Gradually, there are more and more theories that a company that has good relations with stakeholders can expect to increase profitability due to customers' favor. The growing interest in this theory encourages companies to look for practical tools for assessing the impact of corporate social responsibility on profitability. After all, according to stakeholders theory emphasizes the advantages of using a socially responsible strategy to maximize business profits (Kelly, 2004, p. 4).

3.2. Corporate Social Responsibility (CSR)

The topic of corporate social responsibility has been reflected in many studies. It is important to note that the topic has been studied in various disciplines. The review of the literature gives access to a multitude of studies in such disciplines as economics, finance, marketing, sociology, management, business administration, and also in many natural disciplines (McWilliams, Siegel, & Wright, 2006).

One can find different terms, by which is meant what is now considered CSR. So Carroll defined this as corporate citizenship (Carroll, 1998; Pinkston & Carroll, 1994). Ackerman and Wartick
called it corporate social responsiveness (Ackerman, 1973; Wartick and Cochran, 1985). There were also those who called it corporate social performance (CSP) (Barnett, 2007; Wood, 1991).

However, let’s digress from the variety of names and try to define this concept. Formally Bowen (1953) gave one of the first definition of corporate social responsibility which was “It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 1953, p. 6, cited in Carroll, 1999, p. 270). Another definition of corporate social responsibility is given by Davis (1960) as “businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest” (Carroll, 1999, p. 271).

The most extensive set of definitions can be found in Harold Johnson (1971). In his paper, he examines several different approaches. One approach regards social responsibility as an instrument for achieving long-term profitability, whereas according to another approach, social responsibility takes into account the interests of several groups and that business is carried out within a sociocultural system. The third view is about taking into account multiple goals, such as the welfare of stakeholders, than the traditional goal of profit maximization. And the fourth approach boils down to the fact that organizations think about social responsibility when more significant goals for the company have already been achieved. Such goals can be, for example, profitability. (Johnson, 1971, pp. 51-71, cited in Carroll, 1999, pp. 273-274).

The study of CSR is also related to the fact that various crises that led to a decline in the standard of living, formed a negative attitude towards business and companies among the population. Many business accused of irresponsibility and exceptional interest in money. This situation was observed during the Great Depression. It makes and drives many entrepreneurs to think not only of profitability, but also pay attention to the needs of stakeholders (Frederick, 1994). In the book published by Howard Bowen (1953) under the title Corporate Social Responsibility, author gives a new definition to CSR. In his book he defines CSR as an obligation of each enterprise. According to him, when taking decisions the organization should be based on the goals and values of society. (Bowen, 1953, p. 6). Later, he was recognized as the father of corporate social responsibility (Carroll, 1999).

However, there are other opinions on the CSR account. One of the opponents of the theory of CSR and its need for the activities of companies was Milton Friedman. According to his point of view, the company's sole responsibility is its ability to increase revenues for its shareholders. Moreover, he saw a certain danger to the functioning of the free market in the desire of corporate officials to assume responsibility. However, he also argued that managers should strive to increase the company's profitability by adhering to efficient use of resources while respecting ethical and legal norms in the free-market system (Friedman 1962 p. 133). Friedman continued to adhere to this point of view in his later articles. According to him, the funds spent on not directly increasing the profitability of the company negatively impact the shareholders and the organization (Friedman, 1970, p. 14).

However, the concept of corporate social responsibility has devolved. One of the most significant changes can be considered a three dimensional model consisting of what should be included in CSR. Carroll (1979) also stressed that the definition of CSR should take into account the discretionary, economic, ethical and legal responsibilities of the firm (Carroll, 1979). The development of three dimensional model gave a tremendous impetus to the development of the
theory of CSR. The term ceased to be an abstract concept and there were increasing opportunities for deepening knowledge and developing new hypotheses about CSR. Wood (1991) decided to synthesize this model with Wartick and Cochran's (1985) later principles and CSR processes. This allowed us to obtain a more detailed model. This reconstructed model consisted of CSR principles (legitimacy, managerial freedom of action and public policy responsibility), processes of corporate social responsiveness (environmental assessment, management of social issues and stakeholder management), as well as the results of corporate socially responsible behavior (public policies, programs and social results). Among the changes introduced by Wood (1991) one can show the introduction of a three-level analysis of CSR (individual, institutional, and organizational) (Shirey, 2013, p. 30).

3.2.1. Institutional differences hypothesis (IDH)
Studying the behavior of companies one needs to understand that there are a number of factors that do not depend on the company, but affect its activities. These factors can be different institutions, political situation, economic factors, regional factors, etc. There are differences in the perception of CSR in different countries. Some countries understand the importance of CSR and therefore have government support programs for companies. The attitude of society towards CSR can be different. Usually, in more developed countries, consumers and society have higher expectations for companies' social policies (Campbell, 2007).

There are many such factors that can influence the CSR policy of the company, but usually emphasize several categories. First of all, one can single out the current financial situation of the company. It is generally accepted that successful companies are more willing to invest in CSR. And companies in a difficult financial situation have less available funds to invest in the care of the environment and society. The second is propositions the competition among firms. The fact is that high competition can lead to companies trying to cut costs as much as possible, which will allow them to withstand high competition. This also leads to limited additional resources. In this situation, companies are trying to achieve any benefits from the state. Most often these are tax (Campbell, 2007, p. 953). The next factor is the legal framework and internal regulatory norms. Regulations vary depending on the country and region. However, this depends not only on state regulation, but also depends on the intra-industry etiquette. In other words, if it is customary to adhere to high CSR standards in this area, then companies often try to comply with these standards (Campbell, 2007). However, we can identify several factors that affect the behavior of companies. It says that not only financial or moral issues are of concern to the company when deciding on CSR policies, but a number of other significant factors have an impact on the company.

3.2.2. Legitimacy Theory
The theory of legitimacy is closely related to stakeholder theory. Both theories study the views of stakeholders and external pressure on actors (Bitektine, 2011, p. 153). The idea of Legitimacy theory is that business is connected with society by a social contract in which firms agree to perform various socially desirable actions in exchange for the assertion of their goals and other rewards, and this ultimately guarantees its continued existence (Frez, 2012, p. 19). However, there is no clear definition of what the company should do in this cheese to meet expectations. In addition, the expectations of different groups can be completely different. But companies are trying to meet these expectations or at least create the appearance that they meet the standards. Organizations that do not succeed in this direction, and fail to live up to the expectations of stakeholders, are noted as not legitimate. At the same time, legitimacy depends on many circumstances, such as, say, time
and place. That is, what is considered legitimate now, can be considered not so after some time, or in another region (Hoque, 2006, p. 162). For this reason, it is necessary to be extremely careful when making conclusions about legitimacy, because it is impossible to clearly define expectations in different groups and regions is not possible.

Usually organizations are able to realize the signals received, which prompt actions or refusal of action. For each company it is important to respond to such signals in a timely manner in order to create or maintain its legitimacy. Some authors argue that in some situations, the organization itself can press on society and at the same time influence it (Deegan, 2002, p. 292). According to other authors, the process of legitimacy is solved with the help of market mechanisms (Dowling, 1975, p. 126). In other words, from the point of view of the theory of legitimacy, the solution of the problems and tasks of the organization is closely connected with society and it is necessary to interact with the institutions of society for their solution. This prompts the conclusion that the company cannot and should not exist apart from the whole society, on its own. Companies that understand the meaning of legitimacy pay particular attention to public opinion, especially those companies that in their activities causing more damage to the environment (Deegan, 2002, p. 292). At the same time, the damage to legitimacy can be caused not only by the actions of the organization, but the situation when little information about the organization is available to the public. This can cause mistrust of society and a negative reaction. This is particularly true for those organizations whose organizational structure involves the disclosure of public information (annual reports, semi-annual reports and information on CSR).

*Legitimacy Theory & CSR*

Often, society exerts pressure on the firm, after which the company has to disclose information about its activities. This is called a reactive approach (Staden 2007, p. 199). Scientists find an interesting rule, according to which companies with poor environmental performance show the best rate of information disclosure (Cho & Patten, 2007, p. 646). This can be interpreted as the desire to legitimize its activities, showing the society what it was aware of the company's activities (Staden & Hooks, 2007, p. 199). For the authors of this thesis, the legitimacy theory has particular importance because the expectation of society can induce the company to adjust its financial activities. This is mainly due to an increase in the costs of CSR policies. As we can see from the rating of the best corporate citizens used by us, companies occupying leading positions in their industries are usually role models in the sphere of CSR. As we can see, companies can increase costs and take care of their legitimacy both because of external pressure and because of the company's internal organization. But in both cases, this leads to additional costs for the company, because it requires the involvement of additional capital. For this reason, the authors conclude that this problem is relevant from a financial point of view. The hypotheses that we have given in the following paragraphs are aimed at answering from the point of view of profitability how reasonable are the costs of legitimization, hence the costs of CSR.

**3.2.3. Agency Theory**

In order to understand agency theory, it is necessary to define in the beginning two main participants: the principal and the agent. Their relationship can be called a contract or a contract. (Jensen & Meckling, 1976, p. 308). It is important to clarify that the term agent in this case has a wider meaning than in the context of commercial law. In this context, the agent means a representative who has the right to negotiate on behalf of the principal or to bring the principal amount into a contractual relationship with a third party (Heath, 2011, p. 125).
In this case, the principal hires an agent to represent his interests, more precisely, he has performed for him some service or work. In this case, the principal transfers some authority to the agent to make managerial decisions. In this situation, gently take into account that each will act in their own interests, trying to maximize their own utility. This can lead to the emergence of certain risks associated with the fact that the parties may have different views on the strategy and risks. Or the principal cannot understand whether the agent is really acting in his interests and in the interests of business. (Eisenhardt, 1989, p. 58). To solve this problem, the principal can constantly monitor the decisions of the agent and also warn him against harmful decisions for the common cause by introducing bonding costs. But with all this there is always a risk that the principal will suffer losses despite the control and costs, such losses are called residual loss. In this theory it is very important to understand that the organization in which the actors cooperate is not in this case any individual and is only a link between the agent and the principal (Jensen & Meckling, 1976, p. 311).

The agency theory in the modern form was presented in a well-known publication: Managerial Behavior, Agency Costs, and Ownership Structure (1976), published in the Journal of Financial Economics by financial economist Michael C. Jensen and management theorist William H. Meckling. They, in turn, were based on earlier publications made by such American researchers as: Harold Demsetz, Jensen, Meckling etc. (Moses, 2008, p. 2).

Agent theory should answer the main question about how to effectively build the relationship between the principal and the agent. This theory has a large number of critics who consider this theory unjustified. (Ghoshal, 2005, p. 80). Agency theory is important from a financial point of view, because studying the structure of agency relationships plays an important role in understanding the structure of the corporation. (Jensen, 2000, pp. 5–6). In this study, the agency theory interests us in terms of the assumption that decision-makers try to maximize profitability. Each participant also seeks to increase his/her own utility that does not always mean an increase in profitability. With the desire of a group of people to increase their own utility, it is not a fact that they have a spontaneous way to maximize profitability. In other words, agency theory should explain “how the conflicting objectives of the individual participants are brought into equilibrium so as to yield this result” (Jensen, 2000, p. 84).

3.3. Approaches for measuring financial performance

Since our research studies the relationship between CSR and profitability, it is necessary to determine how to measure profitability and what approaches exist. Corporate Financial Performance (CFP) is usually measured using accounting-based or market-based indicators. There are also mixed measures. For example: MVA – market value added. Below is a table of the measures, where they are grouped according to the source (Galant, 2017, p. 685).
Table 2 - Commonly used indicators for CFP.

<table>
<thead>
<tr>
<th>Accounting-based</th>
<th>Market-based</th>
<th>Accounting-and market-based</th>
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<tbody>
<tr>
<td>ROA – return on assets</td>
<td>Stock returns</td>
<td>MVA – market value added</td>
</tr>
<tr>
<td>ROE – return on equity</td>
<td>Market value of a company</td>
<td>Tobin’s Q</td>
</tr>
<tr>
<td>ROCE – return on capital employed</td>
<td>Change in stock returns</td>
<td></td>
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<tr>
<td>ROS – return on sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
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<tr>
<td>Zmijewski score</td>
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</table>

Each of these indicators has its advantages and disadvantages. But almost all of them have one common drawback. It is connected with the fact that often when data from different companies are combined, difficulties arise because the indicators often do not take into account the size of the company. This can create certain problems in a comparative analysis. The second most common drawback is that indicators often do not take into account the industry difference. The same indicators can talk about different situations if these companies function in different industries. (Al-Tuwaijri, 2004, p. 449).

In previous studies, the authors used different groups of measures. Such authors as Herremans (1993), Luo & Bhattacharya (2006), and Patten (1991) used market measures of financial activity. Stanwick & Stanwick (1998), Waddock & Graves (1997) have utilized accounting-based measures. There were also those who used both market and accounting based measures. Such an example: McGuire et al., (1988), Pava & Krausz (1995).

In this study, the authors used accounting based measures. This was due to the need to obtain more detailed information about the financial condition of the company. First of all, we used indicators such as ROA, and ROE. These indicators were used in most of the earlier studies. They are necessary in those cases when companies of different sizes and volumes of capitalization are compared. But as we have already proved above, the use of only these indicators is not enough. We also used the Gross Margin of the company as one of the main indicators. This will help to see how the profitability of the company changes in absolute dimensions. To have clearer picture of the company’s financial performance we also used Asset Turnover. We had to abandon the use of
market performance indicators. Since we have posited that the use of market indicators entails the influence of more market factors that may not be taken into account when analyzing the results. In this regard, we decided to limit ourselves to indicators based on the reports of companies. This will also allow us to use not two but four such indicators.

3.4. Corporate Social Responsibility and Profitability

Before proceeding to a brief review of previous research and hypotheses, let's try to find out the boundaries and links of CSR and profitability of the company. In the opinion of the authors, the researchers constantly tried to find connections between these two concepts. Including the reason that companies do not want to increase the risk associated with raising costs for CSR. Interest in this issue continues to increase. But despite the attempts of researchers to study this problem, we still meet certain gaps in the studying of this problem. So according to Margolis (2009) a conclusive result of this theory has not been achieved. This seems even stranger given the fact that Margolis (2009) has uncovered 214 articles, books, dissertations and working papers studying the link between CSR and profitability.

If there are so many studies, then there are a lot of different points of view. But almost all the research in this field that we had to deal with was aimed at proving that good corporate citizenship does not necessarily worsen financial profitability (Davis, 2009). A good CSR policy also means respecting ethical principles (Campbell, 2006) and a desire to help with reducing problems in society (Porter & Kramer, 2006). If the positive impact of CSR would have been proven, one could speak of a win-win situation. Thus, we can conclude that scientists have always known about the need to study CSR and its impact on various aspects of the company's activities. So one of the first attempts was an empirical study of Bradgon and Marlin (1972). They managed to find a positive relationship between CSR and profitability of the company. Two years later, another study was conducted by Bradgon and Marlin (1974). In their view, the insignificant cost of improving the company's social policy could help the company improve its financial performance. In fact, this could help improve the attitude of employees towards their work. However, not everyone will agree with them. There were researchers who set out to prove the opposite. For this, a study was carried out by Vance (1975). In his work he used share prices for three years. The firms were also those that were used in the work of Bradgon and Marlin (1972). So the result of the studies showed a negative correlation. Having concluded that investments in CSR are not a good idea for a company which is trying to optimize its profits Vance (1975).

The main idea of our research is manifested in the contradiction between the results of these two studies. The authors used quite similar methodologies. But at the same time they made totally opposite conclusions. Aupperle (1985) tried to explain the reasons why such a contradiction is possible. He believes that the sample used in both studies was too small. Also, among the reasons he points out that the choice of firms for research was conducted quite subjectively. But the fact is that the authors used only the movement of prices for the company's shares as an indicator of profitability. Alexander & Buchholz (1978) tried to repeat the study of Moskowitz (1972) and Vance (1975). Only this time the technique was significantly strengthened. So the authors could not find any significant relationship between CSR and profitability. However, this technique required further development. Next Abbott and Monsen (1979) decided to refine these three studies. First of all, they introduced a special scale for assessing the level of CSR. This helped to eliminate most of the defects that the previous authors had. In their methodology, a four-stage CSR pyramid was used (Carroll, 1979).
result, the authors concluded that there is no direct or significant link between CSR and profitability.

However, interest in research in this area has not disappeared. The object of the study required the use of more advanced methodologies. Also, the company's executives could not be satisfied with surface research, which did not take into account many factors (Shirey, 2013, p. 44). For this reason, more and more studies have appeared, including the features of the previous methods, but with significant additions. In 1997, a large quantitative study was conducted by Preston and O'Bannon. As indicators of profitability, they used ROA, ROE and ROI. This already highlights this study among many others. Because it used not just one indicator of financial performance. Also, the quality of products and services was taken into account as an indicator of CSR. Community and Environmental Responsibility (CERESP) was listed as another CSR indicator. This all made the research quite innovative for that time. It is important to emphasize that the authors used various indicators for both CSR and profitability. This made it possible to obtain more detailed results. Interestingly, the authors found a significant positive correlation between CSR and stakeholder theory. And a slight positive relationship between CSR and profitability. The authors did not find any negative connections between these concepts. Although they used the data of 67 companies for ten years (Preston & O'Bannon, 1997).

As we have already pointed out several times in this review, many authors again disagreed with the results of the research. Considering that the financial impact of CSR strongly overestimate. This fueled the interest of various researchers in this issue. More up-to-date studies have appeared. But before proceeding to more modern studies in the field of CSR influence on the financial activities of enterprises, it is impossible not to mention again the study of Margolis and Walsh (2003). Where it is stated that 53% of the authors reported a positive relationship between CSR and CFP (Margolis, 2003).

We see that most of the researchers from 1970 to 2003 talked about positive impact. Now consider a few more recent studies. A significant difference in later studies is the use of data from reputational ratings. So some researchers used in their studies such ratings as KLD, Fortune and Business Ethics 100. For example, we can point out the study of Wu's (2006). In his studies came to the conclusion that when using data from reputational ratings, the results show a positive relationship between CSR and profitability. However, he stressed that when market measurements were used to evaluate CFP, then its influence on CSR turned out to be rather weak (Wu, 2006).

Van der Laan, Van Ees, and Van Witteloostuijn (2008) conducted a large study, collecting data on 734 companies listed on the Standard & Poor 500. As a result, they came to the conclusion that CSR and CFP have a negative relationship. However, one of the most modern and at the same time interesting studies was conducted in 2012. Barnett and Salomon (2012) investigated the so-called U-shaped relationship between CSR and CFP. According to this theory, the most successful are those companies that either pay special attention to CSR or do not care about this problem at all. And those who have a moderate CSR policy are the least successful in their financial activity. Their hypotheses were confirmed by their research (Van der Laan, 2008, p. 303).

The development of CSR theory is closely connected with the development of society. It is obvious to all that the environment and the interests of society cannot be ignored. There is a situation in which companies put more global tasks and reach the international level. A global market is created that includes various jurisdictions and laws. This complicates many tasks for companies including
reporting procedures, interaction with the society and requirements for environmental care (Cadbury, 2006, p. 6). There are many commercial and non-commercial organizations that make sure that companies conduct the correct corporate social policy. At the same time, some companies are mistrustful of such organizations, since in their opinion this could negatively affect the financial performance of the company and bring it to unreasonable costs. Such organizations regularly publish reports accusing some firms of wrecking attitude to nature, of various fraudulent operations and irresponsible attitude to society (Cadbury, 2006, p. 6). This aspect has been studied by Baron’s study (2009). In his work on CSR, he mainly examines the motivations underlying CSR, considering whether moral debt, personal interest or social pressure affects CSR. According to the results of his research, society and consumers distinguish the situation when CSR is caused by personal interest and public pressure from CSR caused by moral values of the company. Consequently, CSR can positively affect the market value of the company only if its customers understand that the company's CSR is not provoked by the self-serving to gain consumer confidence. In this paper, an indefinite conclusion is drawn that CSR cannot be evaluated unambiguously. On the one hand, such a policy can lead to an increase in demand and sales, thereby improving the company's financial performance. On the other hand, this can lead to an increase in costs, which in turn can have a negative impact on the same indicators.

3.5. Corporate responsibility measurement

In this subparagraph, the authors provide sources that served as a basis for assessing the level of CSR companies. The choice of measurement method of CSR is not always an easy task. The author should use such methods, which cover as much as possible performance indicators of the company. In this work we used Annual 100 Best Corporate Citizens List. The list is published on CR Magazine. According to the creators, the purpose of this rating is to increase corporate accountability and responsibility. For the fulfillment of the assigned tasks, there are Ranking and Rating Committee. Experts in these committees are representatives of experts on corporate responsibility, including active practitioners, scientists, investment firms and other relevant communities. CR Magazine uses Russell 1000 for its research. Using this resource and on publicly available data sources, an assessment of the CSR level for companies is conducted. In order for the authors to take into account the data, they must be publicly available.

They use 260 data elements in seven categories (climate change, employee relations, environmental, financial, governance, human rights, philanthropy and community support). Each category has its own subcategories. So for example for climate change are taken into account: climate change disclosure, climate change policy, climate change performance. It is the consideration of various aspects of CSR policy that helped us to choose this rating as a method of assessing the level of CSR in the company. It was important for us to have such indicators, which covers as many lines of business as possible.

All data is collected and analyzed by IW Financial, based in Portland, Maine, in a financial intelligence center serving the environmental, social and governance (ESG) investment community. IW Financial also collects company data from several sources. IW Financial looking for data on both the company’s own site as well as other sources to find any reports the company has published to have additional the database. In addition to the above, they are reviewing reports of 10-K companies filed with the Securities and Exchange Commission (SEC).

The analysis of the collected data takes place in several stages. Each data item has the same weighted value. The number of data items in subcategories may differ, but the subcategories are
balanced among themselves. Next, analysts calculate the base score for each category. The main rule is that the lower the value, the better the company's indicator. So the best indicator is a unit. After all categories are ranked, a weighted average rating for all indicators is calculated. It is also interesting that the rating system uses the "yellow and red cards" system. This system allows one to take into account those legal processes and scandals in which a company is replaced. Red cards recognize a significant adverse event or judgment during a year of research against the company.

In this study, a similar report for 2016 was used. The choice of the year is connected with the fact that this is the nearest reporting year for which you can find all the optimal information. This rating has already been used Shirey (2013). In their paper they used a similar rating for 2012. Methods of analysis in our work are radically different from those were used by Shirey (2013). But using this rating by other authors increases our confidence in its data.

3.6. Literature review

The literary review should be based on a systematic study of the relevant literature and focus on concepts (McWilliams, 2001, p. xv). The collection of theoretical framework on the topic of CSR is connected with certain difficulties. First of all, this is due to the versatility of the topic. The topic of CSR is related to a multitude of studies and articles that often contradict each other. This leads to the fact that all these studies could not give a final answer to the question of the impact of CSR on the financial results of companies. The answers and opinions differ not only in whether CSR affects the CFP, but also how it affects. Careful study of the relevant literature gives the opportunity to bring together most of the generally accepted opinions and hypotheses and identify gaps in the study of this topic.

In order to visually demonstrate the discrepancies in the results of previous studies, the table below is given. This table includes the main studies that formed the basis of the theoretical framework of our study and contains the main findings that are indicated in these works. The (table. 2) used the results of our own literature review and data from Aupperle (1985, pp. 449-450).

As one can see from the table 3, the results are different. The point is not only that the researchers have drawn opposite conclusions. But also that often they used one or two indicators. In the opinion of the authors of this thesis, it is the use of one or two indicators to the fact that the results did not take into account many aspects of the company's activities. Based on the above data, we can once again verify the need to use both accounting and market based indicators.

In this chapter, we showed those studies that formed the basis for our own research. Of course, all the studies that were carried out before us and considered in this paper will serve as a good basis for this study. However, to the greatest extent we will use such fundamental works as Carroll (1979), which describes the four-stage CSR pyramid and more recent research by Wendy (2013) which we used as a practical basis for our study.
## Table 3 - Results of the literature review

<table>
<thead>
<tr>
<th>Research</th>
<th>Methodology</th>
<th>CFP measures</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vance (1975)</td>
<td>Surveys with stock price changes</td>
<td>Stock price</td>
<td>Investments in CSR are not a good idea. Negative correlation with stock price</td>
</tr>
<tr>
<td>Abbot &amp; Monsen (1979)</td>
<td>Content analysis of Fortune 500 companies. SID (Social Involvement Disclosure) is used for CSR.</td>
<td>10 tears yield</td>
<td>CSR has no effect on return to investors</td>
</tr>
<tr>
<td>Moskowitz, M. (1972)</td>
<td>Simplistic comparison of stock price. 14 companies with high CSR and average increase in the Dow-Jones Index.</td>
<td>Stock price</td>
<td>High CSR companies outperform the Dow-Jones Industrials</td>
</tr>
<tr>
<td>Heinz (1976)</td>
<td>Business and Society Review of 26 firms</td>
<td>ROA, ROE, margins</td>
<td>Positive correlation between CSR and ROE</td>
</tr>
<tr>
<td>Margolis &amp; Walsh, (2003); Orlitzky, (2003)</td>
<td>The research is based on a review of previous studies.</td>
<td></td>
<td>Modest positive relationship between financial and social performance</td>
</tr>
</tbody>
</table>

Our literature review shows that studies related to CSR are often tied to the profitability of firms. There is a large number of studies to answer the question of the impact of CSR on the company's financial performance. And the research was conducted both in the short and long term. Despite this, the results diverge and are often ambiguous. Some authors speak of the weak influence of these indicators on each other (Nelling & Webb, 2009, p. 200). Other authors argue that there is a negative impact of CSR on the financial performance of companies (Wright & Ferris, 1997, pp. 303-319). They are opposed by a large number of researchers, according to which CSR has a positive impact on the company's profitability. We have already stressed that most of modern research will tend to accept the position. Further, in compiling our hypotheses, we took into account the fact that most authors are inclined to believe that a positive correlation between CSR and profitability exists.
4. Practical research method

4.1. Hypotheses

Our empirical method is farmed in this chapter in several hypotheses. Our empirical method is formulated in this chapter in several hypotheses. In other words, in order to make conclusions about theories, we have formalized them in the form of hypothesis shown in this chapter. Based on the material studied and our assumptions, we created our own hypotheses about the relationship between CSR and CFP. The peculiarity of our polytechnics is that we are not trying to find the influence of CSR for the reporting year on the subsequent. Our hypotheses are aimed at revealing the relationship between the indicators within one year. Therefore, we want to find the relationship between the position of the company in the above rating and its profitability indicators. Hypotheses were drawn up in such a way that they could be answered correctly using the collected data. Before listing our hypotheses, it should be noted that the CSR indicator is a weighted average for several factors. Therefore, the lower the denomination, the better the indicator.

**H1: There is a positive correlation between the indicators of financial activity and CSR.**

In this study, the CSR indicator is a rating compiled using several aspects of the firm's performance. The final data is obtained from the sum of all these indicators. According to this rating, the company with the smallest number has the best CSR score. Since the indicator is a composite, we decided to check not only the overall indicator, but also the individual indicators of which it consists. Our next hypothesis is to test how the company's environment rank affects financial performance. Thus, we can see in more detail the correlation between these indicators. Since this indicator does not include an assessment of such aspects as financial sustainability, governance corporation etc. In this way, we can single out one sub-indicator, which will help authors to be more objective in their conclusions.

**H2: Environmental rank has a positive impact on the CFP.**

In carrying out our analysis, a scenario is possible in which it may turn out that there is no positive relationship between CSR and CFP. In any case, it is necessary to find out that the CSR policy does not worsen the financial performance of the company. Thus, the authors can test the theory of Vance (1975) that investing in CSR is not a good idea in terms of increasing the company's profitability.

4.2. Population & Sample

It is not suitable to use a probabilistic sampling technique when studying Corporate Social Responsibility, because this method requires every company to have equal chance to be in the sample, which is very hard in our case. That is why we use purposive sampling method. This allows us to outline one or more group based on similarities. The main requirement is to be listed in CR’s 100 Best Corporate Citizens 2016. The second requirement is to have publicly available financial statements and reports, which allows us to collect all the data needed according to the CFP indicators we use in the data analyze.
4.3. Data collection & issues

**Time horizon**

The collection of data for analysis was started by determining the time horizon. The authors decided to use the data for 2016. This solution has several prerequisites. Firstly, this is due to the relevance of the data. To ensure that the results of analyzes are suitable for answering the hypotheses, the data should be as relevant as possible. This would also allow us to take into account some other relevant factors that could influence the results of the statistical analyzes carried out. In addition to the relevance, for the authors of this thesis, it was also important to have access to all the necessary information. If we used more recent data or even data for the current year, we could run into a lot of data gaps, because some data is not yet available in the sources that were used in our searches. Also, the authors abandoned the idea of using a wider time horizon. First, this is due to the theme of our thesis, which suggests studying the impact of CSR on financial results in the short term. The authors had a choice between using large, independent variables or using data over a longer time interval. We decided to shorten the time frame in order to cover as many financial indicators as possible. This would allow us to consider the relationship between the data in more detail. The indicator used to evaluate CSR entails several different factors. Therefore, it was also important to use several financial indicators.

**Data collection**

The authors used secondary data sources to collect data. Since it was necessary to collect data on the financial performance of companies we were interested in data from financial statements of companies. For this, we used the Thomson Reuters Eikon database. This resource gives access to a large number of different company data. We conducted a search for companies, looking for the indicators we needed. The collected data was saved in one excel document. Thus, such data as ROA, ROE, Asset Turnover, and Gross Margin were collected. The reasons for choosing these indicators were given in the third paragraph of this thesis. Another source of secondary data was the *CR Magazine's 100 Best Corporate Citizens*. This is the annual ranking of the top 100 companies in the US in the field of CSR. These data were used because they take into account many factors and areas of activity, which in our opinion should be taken into account when assessing the CSR performance. For 19 years, the Corporate Responsibility Magazine publishes environmental, social and management (ESG) indicators of the top 100 in the CSR of public companies in the United States. This rating has already been used as CSR indicators in Dissertation Wendy L. (2013). In our case, we used data for 2016.

**4.4. Econometric Model**

For analyzing the data we have collected we used Linear Regression analysis. For this purpose we used IBM SPSS Statistics. The following formula was used to create the model:

\[ Y = 0 + 1 \times X_i + \epsilon \]

Where: 

- \( Y \) = dependent variable
- \( 0 \) = intercept
- \( \epsilon \) = error term
- \( X_i \) = independent variable
The model above used for estimation of the primary model, which is developed by adding some factors to the model. This is necessary for the observation of different factors which can influence on the result. Such as industry, leverage, size. In order to calculate the size of company we used ln(Total Assets). This makes it more suitable for transforming (coding) the data in order to use it in Dummy variable. Leverage was conducted using Thomson Reuters Eikon using key metrics function. In order to add the industry factor into account we divided companies into eight groups. Information about industries were also collected using Thomson Reuters Eikon. These groups are Medicinal & Pharmaceutical (1), IT services & Computers (2), Investment & Finance (3), Heavy industry & Real estate (4), Chemical (5), Food processing (6), Service and Retail(7), Light industry (8). For coding these industries we used “Transform” function in SPSS using zeros and ones. One of the industry was removed from the variable according to SPSS requirements. All the data was collected in one excel sheet. And then data was added into a new model:

\[ Y = 0 + 1 \times X_i + 2 + 3 + 4...n \]

Where: 2 = size of the company

3 = leverage

4...n = industry

4.4.1 Variables

In our model we used four dependent variables. This variables indicate CFP of the companies. These are Asset Turnover, Gross margin, Return on Asset and Return on Equity. Two independent variables were used in the model. In order to observe the links between CSR and CFP we used two types of independent variables. These variable indicate CSR performance of the companies. First we used Weighted Average CSR score. In addition to that we also used Environmental Rank. In addition to that we used three dummy variables, such as leverage, size and industry.
5. Findings and analysis

In this chapter we present the results of the research and data processing. Here only the main results are indicated, which are necessary to answer the questions highlighted in this thesis. In this section, the views and comments of the authors are not given. Thus, the authors tried to exclude the influence of our assumption and expectations on the results of the study. The analysis was done in two stages. First, we used as an independent variable Weighted Average CSR Score. And secondly we analyzed the data using Environment Rank of the companies. Also we used linear regression. In addition to linear regression, we performed an analysis using dummy variable. At this stage, the authors consider it necessary to pay attention to the fact that the smaller the nominal value of an independent variable, the better the performance index. That is, for example, if CSR has a positive impact on any financial indicator, then the analysis should show a negative covariance between this indicator and the independent variable.

5.1. Weighted Average CSR Score as an independent variable

5.1.1. Descriptive Statistic

First output provides the usual descriptive statistics for all five variables. Almost for all of variables N equals to 100. This can tell us about completeness of the information and existence of all the scores needed on one or more variables (Leech, Barrett, & Morgan, 2013, p.94). Multiple regression uses only the participants who have complete data for all the variables. The mean is a measure of central tendency based on the arithmetic average of a set of data values. The mean takes into account all of the available information and computing the central tendency of a frequency distribution. It is usually the statistic of choice, which means that the data are normally distributed data. The mean is computed by adding up all the raw scores and dividing by the number of scores. One can see big difference between the means of different variables (see in Table 2). A standard deviation close to 0 indicates that the data points tend to be very close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values (Leech, Barrett, & Morgan, 2013, p.93).

Table 4 - Descriptive Statistic

<table>
<thead>
<tr>
<th>GM, AT, ROA, ROE</th>
<th>Mean</th>
<th>Std.Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM</td>
<td>46.4787</td>
<td>20.53506</td>
<td>100</td>
</tr>
<tr>
<td>AT</td>
<td>0.7792</td>
<td>0.5249</td>
<td>99</td>
</tr>
<tr>
<td>ROA</td>
<td>9.6916</td>
<td>9.34121</td>
<td>100</td>
</tr>
<tr>
<td>ROE</td>
<td>30.3402</td>
<td>51.63468</td>
<td>100</td>
</tr>
<tr>
<td>CSR</td>
<td>114.2362</td>
<td>41.70499</td>
<td>100</td>
</tr>
</tbody>
</table>
5.1.2. Model Summary

The table shown below contain information about the amount of variance that is explained by our variables. This table provides the R, R Square, adjusted R Square, and the standard error of the estimate, which can be used to determine how well a regression model fits the data. R is the coefficient of multiple correlation between independent variables and the dependent variable (Leech, Barrett, & Morgan, 2013, p.95). This indicator can indicate the variance between dependent and independent variables. R Square shows amount of variance explained by particular variables. In the Model Summary, shown below, one can see information about the quantity of variance that is explained by our predictor variables. In its turn, adjustment of the R-squared penalizes the addition of extraneous predictors to the model (Leech, Barrett, & Morgan, 2013, p.95).

Table 5 - Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square of F</td>
</tr>
<tr>
<td>GM</td>
<td>.027a</td>
<td>0.001</td>
<td>-0.009</td>
<td>20.63209</td>
<td>0.001 0.071 1 98 0.79</td>
</tr>
<tr>
<td>AT</td>
<td>.020a</td>
<td>0</td>
<td>-0.01</td>
<td>0.52749</td>
<td>0 0.04 1 97 0.842</td>
</tr>
<tr>
<td>ROA</td>
<td>.172a</td>
<td>0.03</td>
<td>0.02</td>
<td>9.24922</td>
<td>0.03 2.979 1 98 0.087</td>
</tr>
<tr>
<td>ROE</td>
<td>.038a</td>
<td>0.001</td>
<td>-0.009</td>
<td>51.86035</td>
<td>0.001 0.14 1 98 0.709</td>
</tr>
</tbody>
</table>

The multiple correlation coefficient or R for ROA is more than R of the other dependent variables. Also the biggest adjusted R Square is for ROA and equals to 0.02. Adjusted R Square shows how much of the variance in profitability can be predicted from CSR (Leech, Barrett, & Morgan, 2013, p.96). For example: Adjusted R Square of 0.02 indicates that 2% of the variance can be predicted from the independent variables.

5.1.3. ANOVAA

Regression statistics also include variance analysis (ANOVA). The main thing in using this indicator is that if F equals to zero, then there is no regression dependence between the dependent variable and the predictor variables. The most important in this analysis for us is the level of significance of Sig. It shows the value of the difference between the mean values of the variables. We analyzed the final model and obtained the results of the ANOVA test to find out whether independent variables are associated with the dependent variable. Table ANOVAA allows us to know how much the final model is significant, at least at the level of reliability of 95% (Leech, Barrett, & Morgan, 2013, p.94). We are not going to present all of the output. Instead of that we are going to show Regression column. If sig. less than 0.01 it means that the combination of these variables significantly (p < .001) predicts the dependent variable. In our case it is not, as one can see for all of the independent variables are more than 0.01.
### Table 6 - ANOVAA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM</td>
<td>30,255</td>
<td>1</td>
<td>30,255</td>
<td>0.071</td>
<td>0.790</td>
</tr>
<tr>
<td>AT</td>
<td>0.011</td>
<td>1</td>
<td>0.011</td>
<td>0.04</td>
<td>0.842</td>
</tr>
<tr>
<td>Regression</td>
<td>254,857</td>
<td>1</td>
<td>254,857</td>
<td>2.979</td>
<td>0.087</td>
</tr>
<tr>
<td>ROA</td>
<td>377,342</td>
<td>1</td>
<td>377,342</td>
<td>0.14</td>
<td>0.709</td>
</tr>
</tbody>
</table>

#### 5.1.4. Coefficientsa

One of the most important tables in our results is the Coefficients table. It indicates the standardized beta coefficients, which are interpreted similarly to correlation coefficients or factor weights. Authors used 95% confidence level during the analysis. The unstandardized coefficients indicate the increase in the value of the dependent variable for each unit increase in the predictor variable. Beta coefficients are based on data expressed in standardized, or Z score form. The t value and the Sig opposite each independent variable indicates whether that variable is significantly contributing to the equation for predicting dependent variable from the whole set of predictors. Tolerance and VIF provide the same information (Leech, Barrett, & Morgan, 2013, p.92). They help us to understand if there is multicollinearity. If we have low Tolerance value, then there is probably a problem with multicollinearity. If the Tolerance value less than 1-R² then it can be considered as low. In our case for the Tolerance value is significant only for ROA. Thus, from particular point of view only ROA shows linear relation in this model. On the other hand there is no need for us to worry about multicollinearity, because the Tolerance values are equal to 1.

Unstandardized coefficients indicate how much the dependent variable varies with an independent variable when all other independent variables are held constant (Leech, Barrett, & Morgan, 2013, p.94). The unstandardized coefficient, which is B in the table below shows us that for each one increase in GM we will get 0.013 decrease in CSR. We have almost the same situation for ROA and ROE, where we have -0.038 and -0.047 respectively (see the table below). B coefficient for Asset Turnover equals to 0, which means that changes in Asset Turnover does not influence on CSR. Next column shows Std. Error – these are the standard errors associated with the coefficients.
Table 7 - Coefficientsa (GM as a dependent variable)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Zero – order</td>
<td>Partial</td>
</tr>
<tr>
<td>GM</td>
<td>(Const.) 47,993</td>
<td>6,043</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>-0,013</td>
<td>0,05</td>
<td>-0,027</td>
<td>-0,267</td>
<td>-0,027</td>
<td>-0,027</td>
</tr>
<tr>
<td>AT</td>
<td>(Const.) 0,75</td>
<td>0,15</td>
<td>4,847</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>0</td>
<td>0,001</td>
<td>0,02</td>
<td>0,2</td>
<td>0,842</td>
<td>0,02</td>
</tr>
<tr>
<td>ROA</td>
<td>(Const.) 14,086</td>
<td>2,709</td>
<td>5,2</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>-0,038</td>
<td>0,022</td>
<td>-0,172</td>
<td>-1,726</td>
<td>-0,172</td>
<td>-0,172</td>
</tr>
<tr>
<td>ROE</td>
<td>(Const.) 35,688</td>
<td>15,19</td>
<td>2,349</td>
<td>0,021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>-0,047</td>
<td>0,125</td>
<td>-0,038</td>
<td>-0,375</td>
<td>-0,038</td>
<td>-0,038</td>
</tr>
</tbody>
</table>

a. Dependent Variable: GM

Beta in this regression output means the standardized coefficients. Which is the coefficients that one would obtain if standardized all of the variables in the regression, including the dependent and all of the independent variables, before running the regression. By standardizing the variables before running the regression, one can put all of the variables on the same scale, in order to compare the magnitude of the coefficients which makes it possible to see which one has more effect. Usually the larger betas are associated with the larger t-values and lower p-values (Laerdstatistics, n.d). The linear regression also has t and Sig. which are one of the main coefficients. They are the t-statistics and their associated 2-tailed p-values used in testing whether a given coefficient is significantly different from zero. This also determines p-value. In case of our study there are three
conditions of the significance of the p-values. If it is lower than 0, 01 then one can determine strong significance. If it is lower than 0, 05 then there is a significance. And finally if it is lower than 0, 10 then one can see margin significance. As we see in the Table 5 Gross Margin, Asset Turnover and ROE have unsatisfactory results. But in case of ROA p-value equals to 0,087 which is less than 0, 10.

5.2. Dummy variable
The authors have conducted two types of linear regression. In addition to previous results we also present results of analyze using Dummy variable. Here we can see influence of different supplementary factors. One of those is size of companies. Another dummy is industry. We have divided the companies into 8 different groups. Seven of those were used in regression, one was removed according to the requirements of the SPSS (Leech, Barrett, & Morgan, 2013, p.96). Also we used leverage of the companies as an additional variable. We are not presenting all of the main tables for Dummy variables in this section, like we did it for previous results. All of the tables will be added in the appendices.

5.2.1. Model Summary
First we see that R for Gross Margin, which is 0,461 which indicates that there is not a great deal of variance shared by the independent variables and the dependent variables. The same for AT and ROA. Those have 0.378 and 0,415 of R respectively. The situation is little bit different for ROE where R equals to 0,691, which indicates that there is a significant variance.

The next value, R Square, is simply the squared value of R. This is used to describe the goodness-of-fit or the amount of variance explained by a given set of predictor variables (Leech, Barrett, & Morgan, 2013, p.96). In models below R Square equals to 0.212 for Gross Margin, 0.143 for Asset Turnover, 0.172 for ROA and 0.478 for ROE. In order to interpret this indicates one should consider for example 0.212 for GM means 21% of the variance in the dependent variable is explained by the independent variables in the model.

Table 8 -Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM</td>
<td>.461a</td>
<td>0.212</td>
<td>0.115</td>
<td>19.31926</td>
<td>0.212</td>
<td>2.181</td>
<td>10</td>
<td>81</td>
<td>0.027</td>
</tr>
<tr>
<td>AT</td>
<td>.378a</td>
<td>0.143</td>
<td>0.036</td>
<td>0.51239</td>
<td>0.143</td>
<td>1.335</td>
<td>10</td>
<td>80</td>
<td>0.227</td>
</tr>
<tr>
<td>ROA</td>
<td>.415a</td>
<td>0.172</td>
<td>0.07</td>
<td>8.98754</td>
<td>0.172</td>
<td>1.684</td>
<td>10</td>
<td>81</td>
<td>0.099</td>
</tr>
<tr>
<td>ROE</td>
<td>.691a</td>
<td>0.478</td>
<td>0.413</td>
<td>35.4117</td>
<td>0.478</td>
<td>7.408</td>
<td>10</td>
<td>81</td>
<td>0</td>
</tr>
</tbody>
</table>

According to the results factor of size has low sig. coefficient for each variable. It is 0.029 for GM, 0.037 for AT, 0.058 for ROA and 0, 13 for ROE. In other words no influence of the companies’ size observed. Speaking about the leverage one can see margin significance for two of variables (AT and ROA). Significance of industries in dummy variable is quite low.
5.3. Environmental Rank as an independent variable.
As one can see in chapter four the authors used two indicators for CSR. Here we present the results for the linear regression using Environmental Ranks of companies. We just provide a brief outcomes of the results which will be discussed in the next chapter.

Table 9 - Model Summary (Environmental Rank)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GM</td>
<td>.008a</td>
<td>0</td>
<td>-0,01</td>
<td>20,0618</td>
<td>0</td>
</tr>
<tr>
<td>AT</td>
<td>.020a</td>
<td>0</td>
<td>-0,01</td>
<td>0,52749</td>
<td>0</td>
</tr>
<tr>
<td>ROA</td>
<td>.172a</td>
<td>0,03</td>
<td>0,02</td>
<td>9,24922</td>
<td>0,03</td>
</tr>
<tr>
<td>ROE</td>
<td>.038a</td>
<td>0,001</td>
<td>-0,009</td>
<td>51,86035</td>
<td>0,001</td>
</tr>
</tbody>
</table>

Table 10 - Coefficientsa (Environmental Rank)

<table>
<thead>
<tr>
<th>Coefficientsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstandartized B</td>
</tr>
<tr>
<td>GM</td>
</tr>
<tr>
<td>AT</td>
</tr>
<tr>
<td>ROA</td>
</tr>
<tr>
<td>ROE</td>
</tr>
</tbody>
</table>

As one can see in the Table 8 Sig. coefficient for ROA is still the only satisfactory one. Because it is less than 0, 10. According to the fact that environmental rank is one of the factors that CSR includes that one can consider that results indicate the same link. We also used dummy variable in order to take into account the influence of the different factors on the link between the environmental rank and profitability indicators. Those results can be found in appendixes.
6. Discussion
This chapter begins with a brief definition of how the results and findings will be discussed. We divided the chapter into different subsections according to the theoretical part of the study and the nature of the findings. First of all we discuss potential issues and assumptions of the results. It will be also reflected when we discuss limitations. After that we discuss significant results. In this part we are going to pay more attention to the main indicators and main coefficients, such as p-value, R Square, VIF etc. We will also focus on our main independent variable. At the same time we will discuss the second independent variable, which is Environmental Rank. But the largest part of this chapter will be related to general discussion of the links between CSR and profitability indicators. The authors tried to take into account previous discussions and also will be refer to the literature review. This includes the part where we try to understand whether our hypotheses are confirmed using the results.

6.1 Statistical Assumptions
In this subsection we describe some important aspects of assumptions. When using linear regression it is very important fulfill several statistical assumptions which is necessary for robustness of the model. Assumptions should be not violated, in order to not cause the spurious regression. Because the spurious regression cannot show a clear picture of the links within data used for regression. Violations of linearity is extremely serious: if one fit a linear model to data which are nonlinearity or non-additively related, then the predictions are likely to be in error. That is why, the authors paid a lot of attention to linearity of the model, because it is the most obvious. One of the assumption concerns multicollinearity. When doing regression analysis if two or more independent variables have a high correlation it is getting problematic to separate the different effects that they have on the dependent variable (Bryman & Cramer, 2005, pp. 302-303). To measure it we used VIF value, meaning that if VIF value is more than 10 one can observe high level of multicollinearity (Saunders et al., 2009, p. 463). In our results all of the VIF values are below 10, thus is could be concluded that there is no multicollinearity between the variables. Moreover, almost for all variables VIF value equals to 1. For dummy variables it is more than one but still below ten. The highest VIF values are 5,217 for IT-services industry and 4,107 for financial industry.

We tried to make considerable testing of data set to be sure that we used the most suitable model. It was important to not just removing some outliers to make data more suitable, but also our approach was to use the data which fits for linear regression without serious intervention of the observers. It helped us to decrease the skew in the results, which is inevitably in case of removing all the outliers. It gives us a reason to trust results of the statistical analyze.

6.2. Results per variable
Here we discuss each dependent variable and its significance for Weighted Average CSR Score and Environmental Rank. Here we discuss each dependent variable and its significance for Weighted Average CSR Score and Environmental Rank. The main purpose of this subsection the compare previous theories and our results, this will make it possible to test our hypothesis. We collate our hypotheses, which are based on the theoretical part, with the output of data analyze using main coefficients.

*Gross Margin (GM).* We used GM as one of the main dependent variables. Like for all other indicators of profitability we use linear regression in order to see whether any link between CSR
and those indicators. In case of GM one can see that sig. is 0.79 which doesn’t fit requirements of the model. In other worlds there is not big influence of GM to on Weighted Average CSR Score. The B coefficient for GM is -0.013 which means for each increase in the variable we have 0.013 decrease in CSR. As we mentioned above for the CSR indicator in our study lower means better. Despite the fact that there is a positive correlation, we cannot take it into account because the number is not significant. Standard deviation for GM is 20.53506. This can indicate the data points are spread out over a wider range of values. Which is the highest value among the variables. High values of standard deviation makes minimum detectable effect increase, so perhaps there is a need for a larger sample size if one wish to find small statistically significant differences.

Asset Turnover (AT)

The main coefficient for our model is p-value. It will help us to consider the influence of the dependent variables on CSR indicators. That is why it is important to highlight p-value for each variable. As one can see in the previous chapter, p-value for AT is not significant. When we added the dummy variables the situation did not change. It is indicating that there is not positive or significance negative or positive impact of CSR on Asset Turnover. In the second part of our data analyze we tested impact of Environmental Rank on CFP indicators, instead of Weighted Average CSR Score. But according to the results we can assume that there is not big impact of Environmental policy on Asset Turnover.

Return on Asset (ROA)

One can see the most significant results in case of impact of CSR on ROA. For ROA p-value equals to 0.087 which corresponds to the required values. According to the model we used if p-value is lower than 0.10 then it indicates margin significance. This allows us to conclude that there are potential impact of CSR on ROA of the companies. We have mixed results about is there positive or negative neither impact of CSR on ROAD. According to Table 5 CSR has negative impact on ROA. We can observe it by interpreting B coefficients and p-value. When Weighted Average CSR Score increase ROA increase on 0.038. In our opinion, observing the impact of the CSR on one of the CFP indicator is not enough for concluding that CSR has significant impact on CFP indicators. But at least one of the indicators is negatively influenced by CSR. And also this ROA has the biggest adjusted R Square in our model. Adjusted R Square shows how much of the variance in profitability can be predicted from CSR.

Return on Equity

We are not going to focus on ROE because the results for this metric are not statistically significant. So that is why we cannot make any analyze this results.

6.3. General discussion

As we have already pointed out in the theoretical part, the results of CSR research differ. Some argue about the positive impact of CSR on financial indicators, like Bradgon and Marlin (1972), others about the negative impact of both Vance (1975). There were those who concluded that CSR does not affect financial performance. Each of the following studies included the methodology of the previous and different improvements in the methodologies. This allowed to take into account a large number of factors influencing the results of research. So we tried to preserve objectivity and
not have prejudice-related the subject of study. All our arguments and our position on the impact of CSR on financial results will be based on the results of our research.

We tried to include in our research as many factors as possible, which can affect the result of the study. However, we could not find evidence of the positive impact of CSR on the financial performance of companies. On the contrary, we have found out that the costs of CCS have a negative impact, as a minimum, on one of the indicators used by us. We tried to take into account the experience of previous studies. Therefore, we used additional variables. However, this did not significantly change the results and did not affect our conclusions regarding the relationship between CSR and CFP. As mentioned above, we were able to identify the negative impact of CSR on ROA. Then we added some control variables, such as the industry, the risk, the size of the company. This was necessary in order to clarify what other factors can influence the result that we received. As the previous paragraph shows, the use of control variables did not change the picture too much.

Margolis & Walsh (2003) as well as Orlitzky (2003) observed a positive correlation between CSR and CFP. Our results completely different. And there is an obvious question: Does it mean that one of studies contain some mistakes? We think not. The reason for the differences in the results can be explained by different reasons. First of all, we think that big part of the researchers didn't use enough indicators. For example if there is just one indicator used then it can show some correlation with the independent variable. But we think it is not enough for making a clear conclusion about the links. Thus, we believe that use of quite few variables run the authors into different conclusions. Good evidence for that is the study conducted by Alexander & Buchholz (1978) where they tried to repeat the research of Moskowitz (1972) and Vance (1975). And through the development of the empirical method they got the opposite results. This time they didn't find any link between CSR and CFP.

According to Aupperle (1985) some studies on CSR are conducted subjectively. Meaning that the researchers were prejudiced and they just wanted to show a positive relationship. There are some reasons for them to do that. Perhaps they wanted to prove that it is good to invest in CSR policy and it is has not any harm for the financial sustainability of the companies. Also it is closely related to the interests of the society. When claiming that CSR has positive influence on companies profitability one can make the companies to increase expenses for CSR policy, what is favorably from the environmental perspective. Our study was conducted using the data on one year. Which means we didn't observe how expenses ion CSR of previous year impact on the profitability of the current year. Instead of that we can observe how the CSR policy impact on short-term profitability within one year. We believe that it is very important for the companies to know how their key financial metrics changed under the influence of the CSR policy. We also can say that in order to have a good CSR policy company need to spend more resources. It should impact the profitability indicators. And according to our results and theoretical contribution we can say that CSR policy has negative impact on short-term profitability.

6.4. In connection with theories
When speaking about the CSR theory we mentioned different theories which are closely related to CSR. It is also very important to discuss them according to the results of the research.

Stakeholder theory
First we discuss stakeholder theory which is one of the main constituent part of the CSR theory. We can mentioned in the theoretical framework we can say that higher levels of CSR are likely to run into closer partnerships, commitments and a reduction of the gap existing between society’s expectations and the reality of companies’ activities (Lindblom, 1994, cited in Hoque, 2006). But we also mentioned that there is a negative relation between CSR and short-term profitability. Thus, we can conclude that when improving the relationship with the society the company can worsen its financial indicators. It means that in case of optimizing its expenses company will be not focused on the relations with the stakeholders. But of course it can have negative reaction in the society. For example it can worsen the image of the company and then it will decrease the consumer’s loyalty. But it is the topic of another study. We will try to stay in borders of current thesis. Because sometimes the researcher should study long-term profitability in order to understand the impact of investments on CSR policy. Because usually it takes it some lag which is not possible to observe using one year data. According to that we can conclude that the company can decrease its expenses reserve its capital. It can give some competitive advantages, such us decrease of cost price.

Shareholder theory

Usually from perspectives of shareholders investments in CSR has negative impact. Because investing in CSR company waste shareholders capital. But it were some positive correlation between CSR and for example market value of the company it would be better for shareholders. They would be more interested in investing on companies with well-structured CSR policy. Also if it were some positive correlation between CSR and account based profitability measures, then shareholders would be more interested in investing in CSR. But the result of our research does not show us any positive link. That is why the position of those shareholders, who doesn't want to invest in CSR is acceptable. This can drive company into some problems related to the relationship between the company and its shareholders. Thus, the company should pay a lot of attention to its CSR policy from shareholders theory perspective.
7. Conclusions

In this chapter we present our conclusions, which consist of summary of the conducted analyze and discussions. Also here we try to answer research question and the inference. But before that we show whether our hypothesis rejected or confirmed. Next, we give some information for future studies and brief information how one can develop our study. This will help other researchers to use the data we collected and to test impact of CSR using our findings. Also this part includes the credibility and validity of our research. Where we try to give reasons and factors which make our study reliable.

7.1. General conclusions

In this thesis, the authors wanted to test how the CSR indicators affect the company's short-term financial results. Previous Studies on this topic have mixed conclusions, and each side have their own evidence and findings. It made us interested in how exactly expenses on CSR impact the financial performance. And our research question is aimed to show the link between this aspects of the company's activity. Our research question is: What is the relationship between CSR and short-term profitability? In order to answer this question we composed our hypotheses. According to our research methodology we collected and analyzed data and using them in this subsection we are going to reject or confirm our hypothesis. One of the hypothesis is:

**H1: There is a positive correlation between the indicators of financial activity and CSR.**

Our first hypothesis was the most obvious. But at the same time answers to this obvious question are very mixed. That is why we tried to be as particular as possible in order to give exact rejection or confirmation to this hypothesis. Using the secondary data we analyzed it within linear regression. And our results give us permission to set that there is no positive impact of CSR on short-term profitability. We found that CSR has negative impact on ROA of the company, which is one of the main indicators of financial performance. We knew that there are other potential factors which influence on our results. And in order to decrease their influence we have collected additional data. First we removed the influence of the country factor. Because all of the companies in our sample are from USA. Which means that from this perspective they are in the same conditions. This also decreased some ethical and mental factors. Because expectations of the society in different country can vary and it can influence on CSR policy of the company. Second we wanted to take into account the size of company. Because the CSR policy of the company sometimes motivated by the size of the company and its role in the society. For this reason we added the size of company in the dummy variable. We used ln(Total Assets) to estimate the size of the company. But there is another factor which can impact results of the regression. This is industry factor, which also has big influence on the CSR policy of the company. We have already discussed it in our theoretical part. We divided companies into eight industries and also added as a dummy variable. In addition to that we also used Leverage of each company. We can conclude that all of this factors did not change the results. And still we didn't see any positive relationship between CSR and CFP. Based on this we can reject our first hypothesis and assume that CSR has not positive impact on short term profitability. It can be concluded that CSR has negative influence on companies short-term CFP. In addition to other reasons one can say that in order to have good CSR policy companies should invest resources which affects negatively on the ROA and ROE, because this resources don't have doesn't give any direct return. It is mentioned in the methodology part that Weighted Average CSR Score used for indicating the CSR level in the companies. But in order to control the link between CSR and CFP
one more indicator of CSR was used, which is Environmental Rank. And we composed our second hypothesis, which is

**H2: Environmental rank has a positive impact on the CFP.**

It was added in to regression as a control variable. And the some model was used for the Environmental Rank. Environmental Rank is one of the consistent part of Weighted Average CSR score. Also the average score consist some other factors. It was necessary to test whether some of the scores has positive influence on CFP. And testing the Environmental Rank separately the authors wanted to make more complete conclusion about the link between this factors. The results of the second model does not show any significant positive impact on CSR. Opposite, it shows negative impact on the ROA of the company, same as for Weighted Average CSR Score. Based on this the second hypothesis should be rejected. Since hypotheses of the research are discussed, no the authors can answer the research question based on the results. There were significant results indicating the nature of the relationship between CSR and short-term profitability. Better CSR policy doesn't mean better results. Moreover CSR has negative influence on CFP, and significant negative impact of SCR on ROA was detected. Also CSR doesn't give any financial benefits in short-term. It is very likely that some of assumptions of the authors were not correct and rejected by the results. This confirms the correctness of our decision to keep our study not affected by those assumptions.

7.2. Theoretical and practical contribution

The results of the thesis are interesting for the society and gives a lot of avenues to extend the findings or research methods. The research question setted up and the answer on it can be also interesting for both principals and agents of the companies. This thesis answers the question of whether it is worth expecting from investments in CSR a positive influence on short-term profitability. It can also be of interest to those researchers who study shareholders theory. This study examines the impact of CSR, regardless of the fact that this topic was studied earlier. Because having studied previous work, we have tried to use many factors that can also influence the relationship between CSR and CFP. For society there are also some interesting points for discussion: if there is no positive correlation between CSR and CFP does it mean that we should not pay attention on the environmental policy? What is the necessity of the CSR policy? What should we include in CSR? Should the society take into account the negative impact of CSR? Also, this study may interest to academia studying profitability in general and the theory of profit optimization. There is potential risk of negative scenarios in long term related to decreases in socially responsible investments. But studies which observe the link between CSR and profitability can mitigate this problems drawing clear picture of the situation in advance. That is the main value of this study.

7.3. Limitations and Future research

This research can be explored in different ways. First of all, one can collect the data for more long term and conduct the analysis using long time period. This can help one to have information for several years. In turn it can give possibility to take into account more factors, which cannot be included within one year. For example financial crisis or changes in political situation. It is very important to further explore the impact of CSR on different profitability indicators. Because it has key role for the sustainability of the both company and society. Studying it the researchers can draw more detailed picture of the CSR influence on each indicator of CFP. The indicators of CSR
we used in this study were already used before to analyze the link between CSR and CFP. We developed it using different methods and models. That means further researchers also can use the same indicators of CSR for exploring the impact. Weighted Average CSR score consists different other scores. One of them was studied in individual model. It is obvious that one can study more of them and compare the results. Data analysis can also be developed using more professional and advanced methods. Due to the lack in skills and knowledges we probably left wide range of advanced methods, which can help to evolve the findings.

7.4. Research reliability
Adequacy and suitability are very important for reliability. This means that the methods and approaches for data collection, analyzing and discussing should be adequate and suitable. All of the mistakes and flaws fill affect the results of the research. Thus, it was very important for us the use well-reputed database. Before collecting the data we studied the instructions for users and improved our skills. All of the collected data was double checked. All of the lacks and mistakes were removed. In our knowledge, there shouldn't be any mistakes related to the data collection. The model used in the analysis and all of the main stages were explained in practical methodology part in order to make the thesis more suitable and make is easier for replicability. And one of the main criteria of the reliability is whether the results will be the same if some other researchers replicate the same research or not (Saunders et al. 2012, p. 192; Punch, 2014, pp. 237-238). And we hope the definition of our stages and adequacy of the research will help one to get the same result in case of replication.

7.5. Research validity
Validity of the research shows how well the design of the study measures what it intended to measure (Saunders et al., 2009, pp. 157). In this study the impact of the CSR on short-term profitability was studied. The choice of the variables mainly based on the previous research. All of the indicators we used in our thesis were used in different studies and here we combined them in one thesis. These are Gross margin, Asset turnover, Return on Assets and Return on equity. We knew the firms that have been looked at could potentially differ. In order to decrease the number of factors which can influence the results we used control variables, such as leverage, industry, size. For independent variable we used weighted average CSR score and environmental rank. During all of the research period we tried to not deviate from the topic and be as specific as possible.
List of References


The Jean Monnet/Robert Schuman Paper Series, June 2013, Corporate Social Responsibility: A European Perspective by Ramon Mullerat, Vol. 13 No.6, pg.05, Published with the support of the European Commission.


## Appendix

### Appendix CR’s 100 Best Corporate Citizen

<table>
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<tr>
<th>Company Name</th>
<th>CSR</th>
<th>Environment Rank</th>
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<td>Company</td>
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**List of Abbreviation**

- CSR - Corporate Social Responsibility
- CFP - Corporate Financial Performance
- ROA - Return On Assets
- ROE - Return On Equity
- AT  - Asset Turnover
- GM  - Gross Margin