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The impact of corporate social responsibility on corporate financial performance

Master thesis

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Work submission date_

Registration number_

2021

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INTRODUCTION

Modern society expects more activity, against social and ecological problems, from the private sector. Due to the rapidly increased role of the international organizations in the world economy and the huge impact of stakeholders on corporations, since the 1990's it has become vitally important for companies to be socially responsible (Jenkins, 2005).

Business perception changes in the social environment are caused by the tendency to strengthen the labour mobility, raise of goods and financial flowing, powering up the influence of the large transnational corporations, shifting to the innovative economics, raising ecological and social problems. Business used to perceive as a way of gaining a profit by producing and selling goods and services. However, there is coming another tendency, which introduces business as the growth of wellness of the society combining with producing and selling goods and services. Enterprises and corporations, which work in the area of finance and trading, are one of the main subjects in the mentioned process because they have main financial and material resources, which allows them to work against social and ecological problems in our society. As a reason of this, since the second part of the 20th century, the importance of Corporate Social Responsibility (CSR) has been increasing (Hopkins, 2007). As for nowadays, CSR has become an important part of the notion of sustainable development (not only for business but for all society).

While speaking about business, it is worth noting that the main purpose of a commercial organization is to get maximum economic benefits. So, the second side of the medal of CSR speaks not about the business' impact on society but vice versa. The crucial subject of interest is the kind of impact which CSR engaging has on corporations' development and successfulness, and finally, the relationship between corporate social responsibility and corporate financial performance (CFP). So, for the last 30 years, the relationship between corporate social responsibility and corporate financial performance is the subject of great interest among scholars. Many studies have taken for overview mentioned relationship, but it‘s still a point of contention debate (Wang & Sarkis, 2017). Some authors (Orlitzky et al, 2003; Wu, 2006; Margolis et al, 2009) detected a positive link between CSR and CFP. Supporters of such a view argue that implementing CSR is vitally important for companies. Firstly, it reduces costs and risks (Freeman, 1984). Secondly, social activity has financial benefits such as increased return on assets and equity (Galbreath, 2006) as well as return on sales (Ruf et al, 2001) and investments (Kruger, 2015).

On the other hand, Milton Friedman, (1970) and his theory's followers consider that business, which works with respecting the norms of law already, is socially responsible because of creating value, working places and developing the business area. The mentioned theory purports that additional social activity increases outlays and it goes to resistance with profit maximization principle. As a reason of this, CSR is bad for business developing and for unemployment reduce politic (Friedman, 1970; Preston & O'Bannon, 1997; Becchetti et al, 2012).

In addition to the views mentioned above, it should be said that Barnett and Salomon, (2012) indicated the U-shaped relationship between CSR and CFP. They argued that due to social outlays, financial returns declines at first, but then it reaches the maximum. Also, some authors have found mixed (Margolis & Walsh, 2001; Luo & Bhattacharya, 2006) or no significance (McWilliams & Siegel, 2000) relationship.

Some scholars (Margolis & Walsh, 2003; Galbreath and Shum, 2012) have criticized most of the studies because of research methods and taken variables. They argue that the link between CSR and a firm's financial performance cannot be 100% reliable if into consideration is taken only direct relationship. Some mediating factors have a significant impact on the mentioned link, which is omitted in many studies.

In conclusion, it can be said that the relationship between corporate social responsibility and corporate financial performance is more complex than many previous studies show. As a reason of this, to achieve the chief aim of this study, which is to detect the impact of CSR on financial performance, are taken as direct, as indirect variables. During measuring CSR activity's impact on the mentioned variables, the main indicators are stakeholders, their attitude, and their impact personally on each of the factors. The intended objectives of this article are 1) to show the relationship between CSR and direct variables of financial performance, such as Return on assets (ROA), Return on equity (ROE); Return on Sales (ROS) and net profit; 2) To show the relationship between CSR and indirect variables of financial performance, which means: a) To detect the impact of CSR on reputation; b) to identify the influence of CSR on competitiveness; c) to underline the role of CSR in long-term orientated effectiveness. In addition, it is worth noting that most studies of the mentioned relationship have been done in developed countries, based on the USA and Western Europe data (Galbreath & Shum, 2012). Even though, due to the increasing role of developing countries in the process of globalization (Jenkins, 2005), CSR activities and outcomes in the developing world are interesting and important as well. Therefore, a sample from

Georgia, as an East European developing country, could help demonstrate CSR outcomes in a global context. Moreover, evidence shows that the expectation of stakeholders in Georgia is higher than the real level of CSR in practice (Khoperia, 2012). As a reason of this, sufficient ground exists for such studies in Georgia, which is mainly outside the scope of international researches.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1.1. Conceptualization of corporate social responsibility

1.1.1. Concept of CSR

Corporate social responsibility (CSR) is too complex phenomena and is understood differently by everyone, but most of the definitions agree that it means integration of social and environmental issues in parallel with achieving economic goals. One of the first and most explicit definitions of CSR offered by Carroll, (1979) argues that “corporate social responsibility encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time.” Zumburidze, (2008) used in his study the mentioned definition and provided a more broad understanding of each concept. According to him:

Economic responsibility means more than just creating a product or service. A firm should pay attention to activities such as character and direction of investments, supply chain, the character of using resources, business development, and fair trade. In parallel with direct impact, a company can indirectly affect local society through economic activity. One of the primary examples is the impact on a legislative environment by implementing the view in society what is obligatory and what is voluntary in business.

Legal responsibility is expressed in doing business by respecting the law established by the government and society.

Ethical responsibility requires more than just respecting a law. To be ethically responsible firm should pay attention to impartiality and legality. Also, the company has to take care of its employees and the local society.

Discretionary responsibility is the highest step of CSR. In this case, the way the company act is more than just legal or ethical norms. Companies with the mentioned CSR level take care of the environment and society and try to increase overall wellness on a voluntary basis.

In addition, it is worth noting that there are two different models of corporate social responsibility, such as <u>open</u> and <u>closed</u> (Takalandze, 2016). According to the author, the open model means that a company acts in a socially responsible way on a voluntary basis. The firm is independent in choosing a social activity and in defining a budget for it. On the other hand, the closed model involves obligatory requirements from the government to companies to take part in one or another social project. The government establishes the norms and rules during the mentioned activity.

As it was already shown, in the process of CSR, state regulations have an important role. The main three approaches of the state regulations are American, British, and European (Takalandze, 2016). According to the author:

American approach means that business takes social responsibility by itself, and the government regulates just basic rights. The relationships between the company and stakeholders are mainly governed by the mentioned sides.

The European approach, first of all, underlines the role of the state. It means governmental regulations for social responsibility in economic, legal, and social aspects.

British approach is separated from the European because of some similarities with the American approach. It is something intermediate between the USA and European approaches and provides a kind of synthesis of them. The noticed approach includes as social projects organized by the government, as social activities by the business on a voluntary basis.

After Carroll's, (1979) definition of CSR, many studies tried to analyze the mentioned concept and provided their own explanations of corporate social responsibility. As for today, there are three main views of CSR, such as systematic, voluntary, and strategic activity (Takalandze, 2016). Since the 1990s, the most popular view of socially responsible action is a strategic activity. Followers of such view argue that the company should pay attention to various stakeholders such as customers, employees, suppliers, creditors, government, local society, and the media and try to meet their expectations. Each of these groups of stakeholders claims to have a stake in the operations of the company. Some of them are involved more directly and have more benefits than others, but all of them are connected in some way to the company's activities. As more benefits they get from the firm's activity, as higher is their willingness to cooperate with this firm. So, the company has to identify stakeholders which constitute its operating environment and then prioritize their strategic importance. It is argued that CSR is an important tool in the mentioned process, which helps the management embrace these decisions. The described process has benefits such as the maximization of the long-term viability of the firm (Chandler, 2017).

The best explanation of CSR, which comes into contribution with the main goals of the current study, is defined by Chandler, (2017). According to him, CSR is "a responsibility among firms to meet the needs of their stakeholders and a responsibility among stakeholders to hold firms to account for their actions."

1.1.2. Process of implementing CSR

The healthy climate in corporate relationships is one of the most important factors of organizational success. Corporate relations, ethical norms, and acknowledged social responsibility are aspects that create an organizational image. So, one of the most important objectives of the human resources manager is the "creation of the positive organizational environment," which means to found the ethical norms in the company (Matchavariani, 2014).

According to Chandler, (2017), corporate social responsibility should be a component of an organizational culture that is used in everyday operations. Also, the author claimed that management has to integrate CSR into their strategic planning. He argues that strategic planning is a process of defining the demands of internal and external stakeholders and preparing the plan to meet their expectations. The mentioned process includes "identifying the firm's goals, analyzing its competitive environment, reassessing its capabilities, and allocating the resources necessary to achieve its goals." Usually, planning covers as short as long-term objectives. Steps for short and medium run offered by Chandler, 2017 are as following:

- **Executive investment** – implementing of CSR requires sponsorship. A top manager must establish main principles and policy which will be used by employees in day-to-day operations.
- **CSR officer** – CSR requires visibility, as well. So the company should create a CSR officer position with a direct reporting relationship to the board of directors.
- **CSR vision** – Stakeholders need to understand the way the firm acts. So, vision allows them to see the firm's CSR positions.
- **Performance metrics** – In case of measuring the current level of CSR within the company, management should monitor their employees' actions.
- **Integrated reporting.** – Company-wide CSR audit, which is public and available for all stakeholders. Sometimes it can be a legal requirement as well.
- **Ethics code and training** – established the company's own rules of ethics or ethical code with all the standards and practices and training all employees in case of better understanding them.

- **Ethics helpline** – In addition to the ethics code, it’s necessary to get objective anonymous feedback about the CSR level in the company from the third face (usually stakeholders).
- **Organizational design** – In order, all mentioned elements to be successful, support within the organizational structure demonstrates genuine commitment.

Chandler, 2017 also argues about the necessity to engage long-term CSR policies such as:

- **Stakeholder engagement** – To engage in productive strategic CSR, the company should open a “two-way avenue” of communication with the key stakeholders.
- **Manage the message** – Strategic CSR needs to be communicated with stakeholders. The marketing department is the best mediator through which the company can communicate its social progress. In the 21st century, it’s vitally important to establish an effective social media strategy.
- **Corporate governance** – It is the direct interface between the organization and shareholders. Transparency and accountability are crucial for corporate governance.
- **Activism and Advocacy** – It’s an important way to engage an identity that attracts various stakeholders of a company.

After the process of CSR engagement is explained, it would be correct to pay attention to the socially responsible ways different companies act. Each of the firms is personal in managing CSR, but Peng, (2014) grouped their activities in four main aspects such as reactive, defensive, accommodative, and proactive. According to the author, a **reactive strategy** is chosen by firms that do not support CSR practices. According to the **defensive strategy,** CSR activity is limited by respecting regulations. Managers who choose the mentioned strategy agree that social activity increases costs, and it goes into resistance with profit maximization. **Accommodative strategy** means more than just formal regulations. By choosing it, top managers agree about engaging social activities in the decision making but with a strictly defined budget. Executives who respect the **Proactive strategy** do more than is required. They not only support but view CSR as a source of differentiation from competitors.

As for the main practices of corporate social responsibility, should be underlined activities such as a conscientious business practice, environmental protection, developing of a staff and local society, and social investment (Matchavariani, 2014). Moreover, it should be mentioned, instruments of realization of social programs such as grants, social marketing, sponsorship, delegating of corporate staff, organizational found, and charity (Takalandze, 2016).

1.2.Relationship between corporate social responsibility and financial performance

1.2.1. Direct relationship

According to Lu et al, (2014), despite the huge amount of studies about the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP), whether and how CSR affects CFP is still a point of contention debate among organizational scholars (as cited in Wang & Sarkis, 2017). The empirical literature provides positive and negative as well as mixed, neutral and no significant relationship for the mentioned link.

Some of the empirical studies support a negative relationship between CSR and CFP. One of the first opponents of CSR, Milton Friedman, (1970), developed the “shareholder theory.” The main idea of the mentioned theory is that the only responsibility of a business is gaining shareholder’s wealth. Friedman, (1970) argues that the only social responsibility of the firm is to use its own resources and to do business, which aims to get maximum economic benefits. According to him, if the company pays taxes, has average salaries, and pays for established social duty, it is already socially responsible. Additional social activity increases outlays and it goes into resistance with the profit maximization principle, which means that managers from socially responsible firms take resources and money, which otherwise go to shareholders and increase their benefits (Friedman, 1970). It is claimed that a manager with multiple aims is equal to a manager with no objectives at all (Jensen, 2001). So resources for social activities have to be redirected or returned to shareholders (Perrini, Russo, Tencati & Vurro, 2011). Opponents of CSR negatively look at stakeholders. They argue that paying additional attention to them results in refocused strategic goals from the maximization of shareholder’s value to maximization of a set of stakeholders (Becchetti, Ciciretti, Hasan & Kobeissi, 2012). In contribution to “shareholder theory” should be mentioned “trade-off hypothesis” (Preston and O’Bannon, 1997), according to which good CSR practices means poor financial performance. So, socially responsible firms will be at a competitive disadvantage with average firms because of additional costs (Aupperle et al, 1985) and will have lower market performance (Brammer, Brooks, & Pavelin, 2006).

Some authors detected a mixed (Margolis & Walsh, 2001; Luo & Bhattacharya, 2006) or no significance (McWilliams & Siegel, 2000) relationship between CSR and CFP. In supporting these findings, it is argued that the direct, linear relationship between the mentioned variables is not possible (Waddock & Graves, 1997), and there is no correlation between them (Soana, 2011). Also, it should be mentioned that according to Platonova et al, (2018), the neutrality of findings is a result of many variables included in the measure of the link between corporate social responsibility and financial performance.

As for a positive relationship between CSR and CFP, first of all, should be mentioned “stakeholder theory” developed by Freeman, (1984), which is one of the main concepts of corporate social responsibility. According to this theory, CSR might be an optimal choice to minimize agency and transaction costs and potential conflicts with various stakeholders. Freeman, (1984) argues that “If organization want to be effective they will pay attention to all and only those relationships that affect or be affected by the achievement of the organization’s purposes. That is stakeholder management is fundamentally pragmatic concept”. In “all,” the author means main stakeholders such as owners, customers, suppliers, employees, and local society. In contrast, ignoring the interest of stakeholders might negatively affect CFP.

The positive link between CSR and financial performance also can be explained by “Good management theory.” This theory involves better relationships with stakeholders, which in turn has a positive impact on financial performance (Waddock & Graves, 1997). CSR is a part of good management and thus improves CFP (Hull & Rothenberg, 2008), so companies do well by doing good. From the financial manager perspective, CSR investment is a part of the overall strategy and incomes from it would be significantly more than the cost on it (McWilliams & Siegel, 2001). Besides, Dimson, Karakas & Li (2015) found that social activity focusing on stakeholders is associated with positive abnormal returns. It is also argued that CSR could help to generate valuable goodwill that will be a kind of “insurance” from future unpredictability (Godfrey, Merrill & Hansen, 2009) and will protect the incomes of a firm (Soana, 2011).

In addition to the mentioned theories, some studies find a significantly positive link between corporate social responsibility and corporate financial performance. It is mentioned that CSR helps the firm maintain social legitimacy, which, in turn, means a better business environment and better financial returns as well (Wang & Sarkis, 2017). In contribution to this view can be mentioned the positive impact of CSR on return on assets, return on equity (Galbreath, 2006), and abnormal returns (Deng, Kang & Low, 2013). Moreover, it is claimed that CSR increases positive demand effects from socially responsible customers (Becchetti et al, 2014) and raises the return on sales (Ruf et al, 2001). Also, some authors detected that socially responsible firms have more sympathy from the side of investors (Kruger, 2015) and lower capital constraints (Cheng et al, 2014). So, CSR is a strategic choice of a profit-maximizing firm (Baron, 2001).

It is worth noting that to detect the relationship between CSR and CFP, some authors used a review of earlier studies via meta-analysis as a robust statistical method. Orlitzky, Schmidt & Rynes, (2003) identified 52 previous surveys and reported certainly positive relationship. The same result got Wu, (2006) after analysis of 121 empirical studies. Also, results by Margolis, Elfenbein & Walsh (2009), after analyzing 167 studies in the period 1972-2007, provides a positive effect of corporate CSR as on accounting-based, as on market-based profits.

It would be correct to conclude the review of the CSR-CFP relationship in the academic literature by providing the matrix. All the above-discussed author's results are grouped in four main categories such as positive, negative, mixed, and no significant relationship (see "matrix 1").

Matrix 1. CSR – financial performance relationship matrix.

CSR – CFP relationship	Positive	Mixed	No significance	Negative
Representative theory	Freeman, 1984; Hull & Rothenberg, 2008; Dimson et al, 2015; Galbreath, 2006; Deng et al, 2013; Ruf et al, 2001; Baron, 2001; Orlitzky et al, 2003; Wu, 2006; Margolis et al, 2009; Wang & Sarkis, 2017	Margolis & Walsh, 2001; Luo & Bhattacharya, 2006	McWilliams & Siegel, 2000; Waddock & Graves, 1997; Soana, 2011	Friedman, 1970; Perrini et al, 2011; Becchetti et al, 2012; Preston & O'Bannon, 1997; Aupperle et al, 1985; Brammer et al, 2006

Source: Author's results according to their academic literature.

It is worth noting that most of the existing studies are based on data from the USA or Western Europe (Galbreath & Shum, 2012). Even though, due to the increasing role of developing countries in the process of economic globalization (Jenkins, 2005), CSR activities and outcomes in the developing world are interesting and important. Therefore, a sample from Georgia, as a developing country, could help demonstrate CSR outcomes in a global context. Moreover, evidence shows that the expectation of stakeholders in Georgia is higher than the real level of CSR in practice (Khoperia, 2012). As a reason of this, sufficient ground exists for such studies in Georgia, which is mainly outside the scope of international researches.

In Georgia, the social responsibility of a business is actual just for the last 15 years, but the process of individual philanthropy from an entrepreneur's side has a huge history (Takalandze, 2016). In contribution to such a situation, it can be said that to develop corporate social responsibility as a process and some country model for CSR, it needs the experience of doing business, which doesn't have post-soviet countries (Asatiani, 2012). Due to the globalization process and the western political and economic course of Georgia, since 2005, the business environment is changed in this country. After seen correct western practices, the expectations of stakeholders to the private sector dramatically increased. Local society, as well as non-governmental organizations, require companies to be socially responsible and to take into consideration facts, such as product quality, safety, environmental issues, and human rights (Khoperia, 2012).

On the other hand, governmental organizations became very active in the last years. For example, in 2007 was established Georgian representation of the UN's "Global agreement" – "Global program – Georgia." The chief aim of the mentioned program is a popularization of CSR and the establishment of the practice of international social accountancy. Also, due to the "association agreement" between Georgia and the UN, signed in 2018, the Georgian government is obliged to assistance CSR practices.

Since the first memorandum about collaboration in social issues was signed between non-governmental organizations and the private sector in 2005, the number of socially responsible companies is increasing in Georgia. As for today, there are as more socially responsible companies as never (Takalandze, 2016). Lots of big organization's as well as some of SME's managers, understood the importance of corporate social responsibility and tried to be involved in such practices (Takalandze, 2016). In 2005, the survey about the "CSR levels in Georgian companies," organized by fund "Horizon," showed that 78% of top managers of big and medium Georgian companies agree with the importance of CSR and are working for improving its practices. As a reason of the facts mentioned above, it is predicted that similar results to developed countries will be found in Georgia, a developing European country.

According to the above-mentioned information, the following hypothesis is developed:

H1. Corporate social responsibility has a direct positive impact on corporate financial performance.

1.2.2. Indirect relationship. Mediating effect of reputation, competitive advantage and long-term orientated effectiveness

Margolis & Walsh, (2003) mentioned that most of the studies have focused on the direct relationship between corporate social responsibility and corporate financial performance. Even though some studies (Galbreath & Shum, 2012; Luo & Bhattacharya, 2006) argue that the link between CSR and CFP is impossible to detect only by measuring the direct relationship. Some mediating factors have a significant impact on this relationship, which is omitted in many studies. That argument can be used for an explanation of mixed and sometimes opposite results about CSR's impact on financial performance. So, the current study will include three interdependent variables such as <u>reputation</u>, <u>competitive advantage,</u> and <u>long-term orientated effectiveness</u> in order to examine and get reliable results.

Due to the dramatically increased impact of stakeholders on organizations, a huge competition, and growing expectations for socially responsible practices, it has become vitally important for corporations to pay vast attention to their reputation. Cabral, (2012) claimed that firms' performance depends on reputation and reputation depends on the firms' strategy. The reputation of the company defines by the attitude of stakeholders to it and their willingness to cooperate with this firm.

It is argued that as financial as non-financial outcomes are benefits of a good reputation (Roberts & Dowling, 2002). As for financial outcomes, reputation is one of the most important intangible assets about which financial performance is concerned (Schwaiger, 2004). In contribution to above mentioned, it can be said that some authors detected a positive relationship between reputation and customer satisfaction (Walsh, Mitchell & Jackson, 2009) and argue about the possibility of a firm with a good reputation to repeatedly attract customers or involve new ones (Wang & Sarkis, 2017). As a reason of this, a good reputation means a higher return on sales and a higher return on assets (Roberts & Dowling, 2002) because as more customers the firm has, as higher sales they can generate. So, the relationship between reputation and financial performance is positive (Schwaiger, 2004).

On the other hand, reputation can bring such non-financial benefits as improved relations with external actors (Reverte, Gomez-Melero & Cegarra-Navarro, 2016). Also, Godfrey et al, (2009) found that such intangible asset as reputation can defend the firm during crises and from stakeholder responses to bad news. Also, it should be mentioned that the firm with a good reputation is less risky than a firm with similar financial performance, but with a bad corporate reputation (Helm, 2007).

Galbreath & Shum, (2012) detected the positive impact of CSR on reputation and argued about the mediating role of corporate reputation in the CSR-CFP relationship. Reputation could be understood as a crucial intangible resource that can be built or destroyed by the decision of the firm to engage or not in socially responsible activities (Reverte et al, 2016). So, CSR could be a strategic choice for building a positive corporate reputation (McWilliams & Siegel, 2006). By the social activity, a firm can create a reputational capital that can be helpful in negotiating with various stakeholders and also, can mitigate the potential harm of their reputation in the future and provide some kind of protection for financial results (Soana, 2011). Moreover, a socially responsible firm has a high chance of attracting new investments because investors are more likely to firms with a good social reputation. On the other hand, socially irresponsible activities, such as pollution, contract scandals, and a bad working environment, can harm a corporate reputation and as a consequence, harm financial indicators (Reverte et al, 2016). So, as Koh et al, (2014) claimed, CSR increases reputation and stakeholder support, which, in turn, adds value to the firm and raises shareholders' wealth (as cited in Barnett & Salomon, 2012).

In addition, it is worth noting that the relationship between CSR and reputation is mediated by stakeholders such as customers and local society. By involving in social activities such as: supporting eight main rights of customers (developed by Customer International, which have been admitted by the UN in "Guidelines for consumer protection, 1985"), fair pricing, high quality of reporting, and protection of customers' personal information will lead to the high customer satisfaction which in turn, means more customer loyalty and increased reputation (Khoperia, 2012). On the other hand, by social activities such as environment protection, taking care of ecology, creating a high quality product, and investing in social programs, the firm will achieve the sympathy of local society. It should be underlined probably one of the most important parts of the local society in the 21st century, such as social media. Companies with high CSR levels have the most superior support and sympathy of media, which is one of the most excellent tools and means a high level of a reputation (Khoperia, 2012). In conclusion, it can be said that on the one hand, existing literature reveals the positive effect of CSR on reputation and on the other hand, a positive effect of a good reputation on corporate financial performance.

Engaging in CSR can lead to a good reputation and stakeholder support, which in turn will improve the competitive advantage of the firm (McWilliams & Siegel, 2001) because customer satisfaction and reputation are the crucial indicators of competitiveness (Gupta, 2002). Moreover, improving a sustainable competitive advantage plays the most important role in achieving high levels of financial benefits (Majeed, 2011). So, one of the crucial goals of the firm is the correct management of competitive action. According to Smith et al, (2001), competitive action is “externally directed, specific and observable competitive moves to enhance a firm’s competitive position” (as cited in Barnett & Salomon, 2012). Edvinsson, (2002) mentioned about the changing of the process of value creation, because of competitive advantage nature which has shifted from the physical to the intangible. According to him, nowadays, competitiveness is based on company activities and knowledge. So the integration of CSR in the management models could be useful. It allows the firm to generate valuable intangible strategic assets (McWilliams & Siegel, 2000), which, in turn, will lead to a high level of competitive advantage and improved financial benefits (Surroca, Tribo & Waddock, 2010).

It is argued that by developing close relationships with stakeholders via engaging in CSR company can develop innovations (Klassen, 1999) and human resources (Russo & Harrison, 2005). The mentioned aspects enable the most efficient use of the company’s assets and help it to improve competitive advantage against competitors (Surroca et al, 2010). The most important part of the human resources manager’s job is managing firms’ employees because they are one of the crucial instruments of competitiveness. Nowadays, many organizations view CSR activity as an opportunity for better management of their human resources to improve competitive advantage. According to Khoperia, (2012), firms with a high level of CSR have a much higher chance to have a better staff. She argues that socially responsible managers respect activities against employees such as, protecting their rights and safety, studying and professional developing assistance, respecting the principle of justice in a manager-employee relationship, health insurance, helping to maintain the balance between work and personal life, the prohibition of discrimination. As a feedback, the company gets a positive working area, increased productivity, individual philanthropic work, reducing staff capacity, simplicity of professional staff recruitment, loyalty, and decreased staff turnover. The mentioned aspects lead to improved labour potential, which in turn has a positive impact on the competitive advantage of the firm (Khoperia, 2012).

As for innovations, it's a crucial challenge for companies in the 21st century. According to the public governance model solidified by the "Europe 2020 strategy," innovation is the real source of stimulating economic growth and achieving competitive advantage. Corporate social responsibility can facilitate the development of productive innovations, which is difficult to copy for competitors (Surroca et al, 2010). Sustainable oriented innovations are the integration of social aspects into processes, products, and organizational structure. So, CSR is positively correlated with innovations (McWilliams & Siegel, 2000; Hull & Rothenberg, 2008). As a reason of above mentioned, it can be argued that CSR is an important tool for companies to improve the quality and production process and be more innovative, effective, and efficient (Martinez-Conesa, Soto-Acosta & Palacios-Manzano, 2017).

Besides, it is worth noting that Hull & Rothenberg, (2008) found corporate social responsibility as a source of competitive advantage. Social activity has been viewed by the mentioned authors as a differentiation strategy to help organizations achieve competitive advantage positions in the market. In other words, CSR will differ firm from its competitors and will help to build a good position in an extremely competitive markets (ACCA 2009). So, from the resource-based view of the company, corporate social responsibility is a source of competitive advantage (Porter & Kramer, 2006). CSR is the strategic investment that will lead to the power to gain the competitive context of the firm in a favourable way (Porter & Kramer, 2002).

In contribution to the view that CSR increases competitive advantage, some authors found that socially responsible governance can build capabilities and resources to gain a competitive position (Wang & Sarkis, 2017). According to the resources and capabilities theory (Amit & Shoemaker, 1993), CSR can bring as internal as external benefits. Investment in socially responsible activities can help a firm to develop new resources and capabilities which are related, namely, know-how and corporate culture (Reverte et al, 2016). Moreover, one more of such resources, developed by CSR, is an enhanced social legitimacy that can improve a firm's competitiveness through stakeholders because they are more likely to support the company when its actions meet their expectations (Suchman, 1995). In addition to stakeholders' support, some authors (Manasakis, Mitrokostas & Petrakis, 2014) found that customers' willingness to pay for a product increases due to a firm's social activities, which in turn, provides a competitive advantage and increases financial incomes. So the level of CSR efforts is related to the competitiveness of the private-good market. It is also argued that a company can develop a competitive advantage by engaging in a number of environmental related activities (Billing & Scott, 1995). Authors found that environmental issues addressed by a company can affect the marketability of their product and competitive position, which will lead to increased financial performance. In conclusion, it can be said that investment in strategic corporate social responsibility is a source of competitive advantage and a tool to gain financial performance (Porter & Kramer, 2006). So, CSR – CFP relationship is positively related by competitive action (Barnett & Salomon, 2012).

Competitive advantage based on corporate reputation is the crucial intangible asset, which is a source of strategic advantage that enhances the ability of a company to create value over the long-term (Caves & Potter, 1997). So, by engaging in CSR company can generate favourable stakeholder attitude and their better support as well as build corporate reputation, enhance stakeholder advocacy behavior and gain a competitive advantage over the long-term (Du, Bhattacharya & Sen, 2010).

According to Wang & Bansal, (2012), long-term orientated decisions lead to effectiveness. Authors claimed that long-term oriented firms allocate their resources for improving competitiveness in the future. They often implement activities with no benefits “today,” in case that it will pay much more in the long run. In contribution to above mentioned, Barnett & Salomon, (2012) indicated that CSR-CFP relationship is the dynamic process that will change over time and it takes some period for corporate social responsibility to have an impact on financial performance. They found that due to social outlays, financial incomes decrease at first, but then it rich the maximum. So, by being socially responsible, a company can increase customer loyalty as well as attract new ones which will have a positive impact on return on sales and financial performance in the long run (Platonova et al, 2018). Moreover, a positive correlation was found between CSR – employee satisfaction and long-term shareholders returns (Edmans, 2013). As for shareholder value, Smith, (2005) argues that social activity gains shareholders’ incomes over the long-term by reducing costs and risks (as cited in Reverte et al, 2016). In conclusion, it can be said that engaging in CSR is the key factor of stimulating long-term stability, economic growth and sustainable performance in a dynamic and changing environment (Gyves & O’Higgings, 2008) which in turn, means increased financial performance in the future (Platonova et al, 2018).

According to the above-provided information, the second hypothesis is as following:

H2. Corporate social responsibility affects reputation, competitive advantage, and long-term orientated effectiveness positively.

1.3.Theoretical model

According to Galant & Cadez, (2017), CSR measurement is a complicated process due to two reasons. On the one hand, it's the different theoretical meaning of the CSR concept and on the other hand, the multidimensionality of the concept with comparatively various dimensions. As a reason of this, a lot of different measurement strategies have been used by researchers in order to measure CSR's impact on companies. By the frequency of use, authors summed different approaches in four main groups, such as reputation indices, content analyses, questionnaire-based surveys, and one-dimensional measures.

It is argued that reputation indices assembled by specialized rating agencies is the most common way of measuring CSR. Crucial indices include the MSC KLD 400 social index, fortune magazine reputation index, Dow Jones sustainable index, and Vigeo index. (Galant & Cadez, 2017). Consequently, mentioned indexes have been widely used by authors (Hull & Rothenberg, 2008; Hillman & Keim, 2001). Even though, it is worth noting that Galbreath & Shum, (2012) have criticized such kind of measure. In line with noticed authors, Graafland et al, (2004) mentioned that data gathered by rating agencies are subjective because of no necessity of using scientific methods. On the other hand, the number of geographic regions and countries and firms within countries is limited (as cited in Galant & Cadez, 2017). Since the sample of the current study is Georgia, which is outside the boundaries of the mentioned reputation indices, this approach is useless.

According to Galant & Cadez, 2017, when the company or country is not included in rating lists of agencies, primary data should be collected about CSR via questionnaire-based surveys. In contribution, some authors (Wang et al, 2015) claimed about the strongest effects of measuring CSR-CFP relationship via surveys than via using three other mentioned method approaches. Moreover, the data gathered primarily from the top-managers, who know exactly the CSR engagement level in the company, provide much more precise and significant results than other ways of collection. Especially, in Georgia, where is a lack of data analysis about CSR. So, in order to make the results statistically significant, make measurement more precise by enforcing uniform definitions upon the participants, and get the flexibility to analysis, the current study uses a quantitative method of measurement such as a questionnaire-based survey. It is also argued that using the mentioned method is useful to test our hypothesis as well as to measure and get objective results. As reported by Epstein & Rejc-Buhovac, (2014), respondents might provide socially fulfilling answers, which could differ from real actions in practice (as cited in Galant & Cadez, 2017). As a reason of above mentioned, in order not to be subjective, the current study provides a survey as for the company's managers as for its stakeholders. By doing so, it is possible to compare answers and get objective results.

Independent variables. The instrumental method offered by Carroll, (1979) provides the best overall fit because it includes four dimensions of CSR, such as economic, legal, ethical, and discretionary. So, the current study uses to measure a company's perception of each mentioned dimension. For measuring is chosen the scale offered by Maignan & Ralston, (2000) (see "appendixes" "Table 1"). On the one hand, the mentioned scale allows assessing the level of CSR taken by the company. On the other hand, the scale has been used by the authors in multiple countries and industries, so it could be appropriate for the current study. The use of a Likert five-point scale from "strongly disagree to "strongly agree" is provided to measure all four mentioned CSR dimensions.

Dependent variables. Indirect variables of CFP. As for measuring reputation, the scale offered by Weiss, Anderson, and Macinnis, (1999) (see "appendixes" "Table 2") is useful for the current study because it is oriented on an ordinary approach and is simple for understanding. In order to measure the competitive advantage scale developed by Quinn & Rohrbaugh, (1983) (see "appendixes" "Table 3") seems to be appropriate. The mentioned scale is oriented on four aspects, such as internal process, open system, rational goal, and human relations. Long-term orientation is measured via using four items, which were successfully used by Wang & Bansal, (2012) (see "appendixes" "Table 4"). For measuring all three variables, the use of a Likert five-point scale from "strongly disagree" to "strongly agree" is provided.

Direct variables of CFP. As reported by Galant & Cadez, (2017), generally, corporate financial performance is measured with market-based or accounting-based indicators. In line with it, they argue that market-based measure is available only for companies which are listed publicly. Also, the mentioned indicator doesn't allow to measure the specific characteristics of a firm. So, for measuring corporate financial performance, the current study selected an accounting-based indicators. According to Richard et al, (2009), the most commonly used accounting-based financial measures are: return on assets, return on equity, return on sales, and net profit. In accordance with the mentioned author, the same indicators are used in order to measure corporate financial performance.

2. EMPIRICAL STUDY

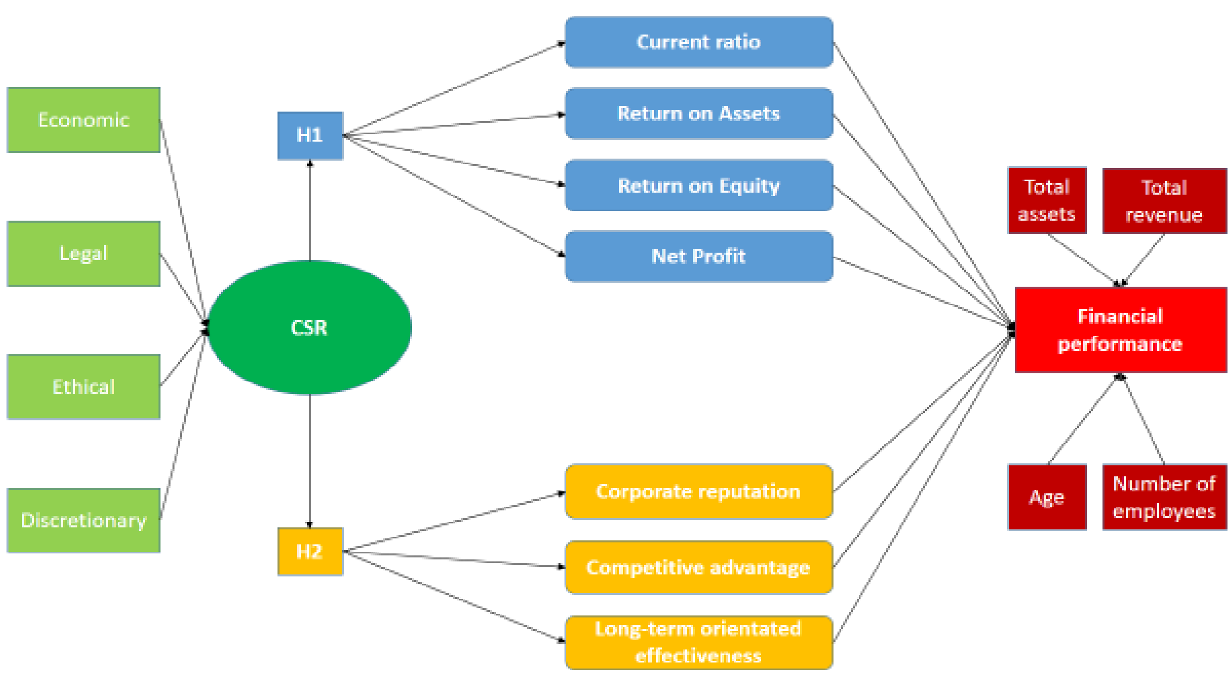
2.1. Research design

The chief aim of the current study is to detect the impact of corporate social responsibility on corporate financial performance. Most of the studies about the mentioned link measured the relationship between CSR and direct variables of financial performance which is not enough for getting reliable results. Some of the mediating factors have a significant impact on the relationship between CSR and CFP. (Margolis & Walsh, 2003; Galbreath & Shum, 2012). According to the noted fact, some studies from the last decade tried to include mediators in the process of measurement (Cabral, 2012; Galbreath & Shum, 2012; Martinez-Conesa et al, 2017; Reverte et al, 2016). In order to fulfill the mentioned gap and get 100% reliable results, for the current study, it has been decided to sum both ways and to measure the impact of CSR on direct variables as well as on indirect variables (mediators) of financial performance. Two hypotheses, developed in "chapter 2" for the measurement process are as follows:

H1. Corporate social responsibility has a direct positive impact on corporate financial performance.

H2. Corporate social responsibility affects reputation, competitive advantage, and long-term orientated effectiveness positively.

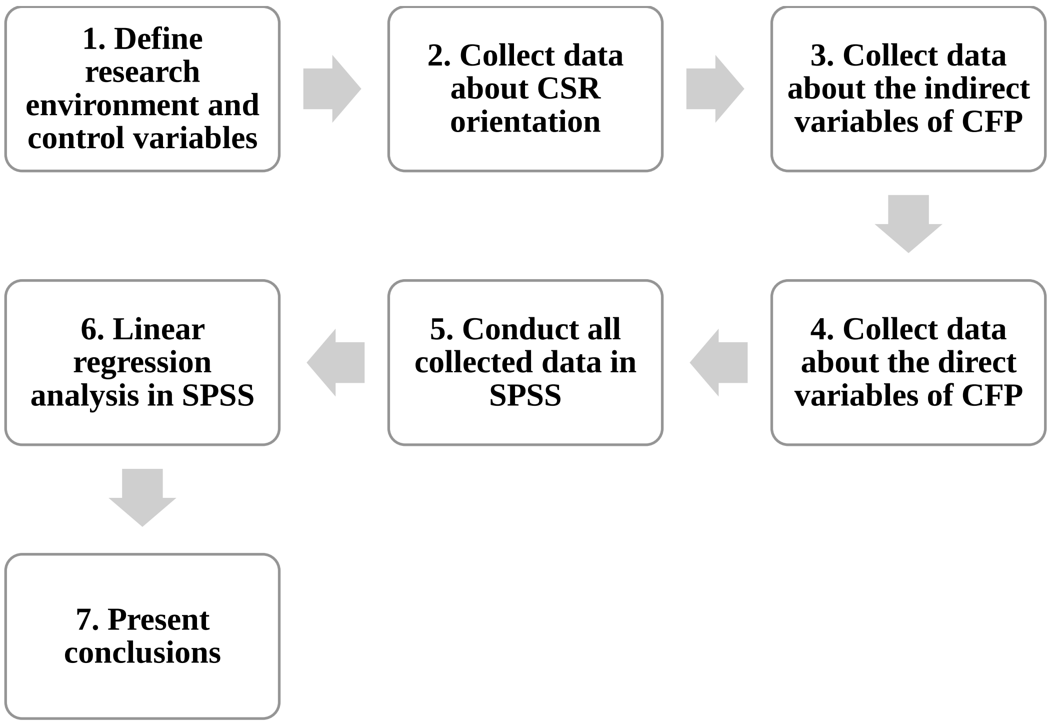
Figure 1. Research design.



"Figure 1" shows the way of measuring developed hypotheses and the whole picture of the research design. After the general look is provided, it would be correct to subdivide tasks and define step by step plan for the research methodology and hypothesis measurement.

To conduct the empirical research the process is broken up into seven phases as shown in "figure 2." The process of the work done and the detailed explanations of each phase is provided in subchapters below.

Figure 2. Research process step by step.



2.2. Research environment and control variables

There are different ideas about detecting the scopes and control variables for the object of the study (e.g. company) and its environment. The level of CSR practices significantly differs according to the country and area, so the main determinant is the sample (country or area) of the study. The sample of the current study is Georgia, an East-European developing country. CSR practices are new for the business environment in Georgia. Despite the fact that CSR engagement has been increasing since the last 10-15 years, the overall level still remains low (Khoperia, 2012). Due to the mentioned information, it could be argued that there is more probability of the existence of CSR practices in big corporations than in small and medium enterprises because of more availability of resources for engagement. For engagement of CSR as a strategy and continuous process in the company, material as well as human resources are needed. On the one hand, the average operating income of Georgian SMEs is not enough for additional strategic activities such as CSR engagement. On the other hand, the amount of professional human resources who can be responsible for strategic CSR activities is limited and could be reached by the big corporations in general. Managers of SMEs with a serious lack of knowledge about corporate social responsibility could be incompetent in the understanding of a concept of CSR which will lead to wrongly understood survey questions and correspondingly, to the incompetent answers. One more crucial argument is that in order to collect financial data (dependent variables) financial statements are needed. In Georgia, big corporations are obliged to publish financial statements with independent audit conclusions at the end of each fiscal year. So, it's easy to have an access to them. As for SMEs, it will be a huge problem because almost none of them publish the statements. Besides, in Georgian business behavior around 90% of companies don't agree to share private data. According to the above mentioned information, the current study excluded SMEs from the research, in order to get reliable data and not to decrease the final response rate dramatically. Georgian legislation system splits the companies into five categories (fourth, third, second, first, and entity of the public interest (PIE)) according to three characteristics such as the amount of total assets, total revenue, and the number of employees. The current study excluded third and fourth category companies, as they award to SMEs. So far, the control variables such as the number of employees, the amount of total assets, and total revenue are defined as shown in "table 5."

Table 5. Explanation of the company categories

	Entity of the public interest (PIE)	**First category enterprises**	**Second category enterprises**
Number of employees	250+	250+	50-250
Amount of the total assets	100-200mln (Georgian Lari)	50-100mln (Georgian Lari)	10-50mln (Georgian Lari)
Amount of the total revenue	100mln+ (Georgian Lari)	100mln+ (Georgian Lari)	20-100mln (Georgian Lari)

Moreover, one of the most commonly used control variables during measuring CSR orientation is the age of the company (amount of years in business). CSR engagement as well as getting its outcomes is a complex process which needs some amount of time. So, usually, authors try to involve in the research experienced, old companies. Since the current Georgian business environment is too young with around 30 years of experience (Asatiani, 2012) current study has no wide range of choice in this case. Even though, for the reliability of the results long-term experience is needed, so the minimum figure for the age such as seven is fixed.

There are some studies which used to define sectors of activity of the companies and used it as a control variable. In the mentioned case it’s easier to get results. Even though it allows to generalize results only in defined sectors. Moreover, there is a probability that generalized results would not be correct because of the different amounts of companies in the sector and different levels of popularity of the sector in different countries. Due to the above mentioned information, the current study has omitted control variable such as sector of activity. One more crucial argument is the limited amount of companies in each sector of Georgian business because of the developing economy, small population and country size. So, there is a high probability that the amount of companies from one or two sectors would not be enough for reliable analysis. On the other hand, data from different sectors allows to generalize results more accurately, correctly, and wider.

The quantity of the research object has been identified according to the previous studies about CSR with a similar research methodology to the current paper (see “Matrix 2” for the survey sample).

Matrix 2. Survey sample.

Author	Year	Data analysis	methodology	Total amount	Response amount	Response rate	sample
Simons et al	1999	Correlation	survey	950	57	6%	Worldwide
Galbreath	2006	Regression	Dataset	100	38	38%	Australia
Godfrey et al	2009	Regression	Dataset	160	160	100%	Worldwide
Kruger	2015	Regression	Dataset	100	100	100%	USA
Platonova et al	2018	Regression	Content analysis	24	24	100%	Islamic countries
Preston & O'Bannon	1997	Correlation	Dataset	67	67	100%	USA
Soana	2011	Correlation	Dataset	31	31	100%	Italy
Mishra & Suar	2010	Regression	Survey	1500	150	10%	India
Average amount				**366,5**	**78,3**	**Dataset-89,6% Content analysis-100% Survey-8%**	
Current study	**2021**	**Regression**	**Survey**	**360**	**36**	**Survey-12%**	**Georgia**

“Matrix 2” shows that the average number of total participants is 366.5 with on average 78 respondents for data analysis. As the sector size of the research object of each study listed in “matrix 2” is wider than the sector size for the current study, it has been decided that the total amount of participants close to the average (366.5) is an optimal choice. So, According to the defined environment and control variables top 300 Georgian companies (with legal forms **JSC** or **LTD**) by the revenue of the year 2017 published by “Forbes Georgia” are chosen as a research object. All companies are from categories such as PIEs, first, and second with a minimum of seven and maximum thirty years in business. The sectors of activity of companies are reported below:

- Retail & consumer goods
- Health & pharmacy
- Manufacturing
- Financial
- Construction & real estate
- Agriculture
- Telecommunications
- Service
- Distribution
- Tourism

In addition, as one of the important circumstances should be mentioned that the current study tried to involve in analysis companies which are members of the “UN global compact Georgia” because they are obliged to be involved in CSR practices. It would be interesting to compare their performance with other companies and see the differences between them. In total 37 Georgian companies are members of “UN global compact Georgia”, but just 10 of them satisfy the requirements about the control variables of the research methodology of the paper.

The current study provides four different surveys (about CSR orientation, corporate reputation, competitive advantage, and long-term orientation) for the top-managers. So, first of all, the offer for participation in the research has been sent to the top-managers of all 300 chosen companies. With 36 consents, the overall response rate was 12%. From the very first view, it seems to be law. Even though it is worth noting that CSR surveys with respondents such as top-managers, have very low response rates. “Matrix 2” shows that the average response rate of surveys of the listed studies is 8%. If take a wider look at the earlier studies about CSR we will see that the response rate varies from 6% up to 16%. In addition, it is argued that in developing countries the response rate is even lower because of the lack of serious surveys about CSR and low level of knowledge of the managers about CSR. Galbreath & Shum, (2012) argued about the acceptance of 10% in such countries. In addition, it is vitally important that the survey is done in spring 2020 during the well-known world quarantine period which also decreased the probability of the response. Therefore, due to the provided information, 12% of the response rate in a developing country such as Georgia, with a very young history of CSR practices which are practically newborn, is appropriate. Moreover, as the practice showed, 36 companies are completely enough for data analysis and getting reliable results. It can be seen in “matrix 2” that there are successful studies which have been used an almost similar number of participants for data analysis. (See the list of the 36 participant companies in “table 6”).

Table 6. Participant companies

Company	Industry	Category	Legal form	Age
Adjara Group	Agriculture	1	LTD	15
Anagi	Construction	1	LTD	30
M2	Construction & Real estate	2	JSC	14
Pheri	Construction & Real estate	1	LTD	24
Gorgia	Construction & retail	1	LTD	12
Modus	Construction & retail	1	LTD	14
Elizi group	Distribution	1	LTD	16
Philip Morris Georgia	Distribution	1	LTD	10
GDM	Distribution	2	LTD	15
Liberty Bank	Finance	1	JSC	25
Terrabank	Finance	1	JSC	13
Credo Bank	Finance	PIE	JSC	13
VTB Bank	Finance	PIE	JSC	25
Procredit Bank	Finance	1	JSC	21
Kartu Bank	Finance	2	JSC	24
BazisBank	Finance	1	JSC	24
Bank of Georgia	Finance	1	JSC	25
Finca Bank	Finance	1	JSC	13
TBC Bank	Finance	PIE	JSC	24
Imedi L	Health & pharmacy	PIE	JSC	22
Globalpharm	Health & pharmacy	2	LTD	16
PSP	Health & pharmacy	1	LTD	26
Coca-Cola bottlers Georgia	Manufacturing	1	JSC	24
Barambo	Manufacturing	1	LTD	11
Mina	Manufacturing	2	JSC	23
Elit electronics	Retail & consumer goods	1	JSC	15
Nikora	Retail & consumer goods	2	JSC	22
Altaokey	Retail & consumer goods	1	LTD	23
Foodmart	Retail & consumer goods	1	JSC	7
Ori Nabiji	Retail & consumer goods	1	LTD	10
Duty free Georgia	Retail & consumer goods	2	LTD	9
GT group	Retail & Service	1	LTD	15
Tegeta motors	Service	1	LTD	24
Magticom	Telecommunication	1	LTD	24
Silknet	Telecommunication	1	JSC	11
Metro Avrasya Georgia	Tourism & Real estate	1	JSC	10

2.3. CSR orientation as an independent variable

A quantitative method of measurement, such as a questionnaire-based survey, is the most appropriate method for the current study to measure CSR orientation. The five points Likert scale questionnaire from strongly disagree to strongly agree offered by Maignan & Ralston, (2000) (see “Appendixes”, “Table 1”) has been detected for the measurement.

The above mentioned questionnaire has been sent to each top-manager of all 36 companies which have accepted the offer about participation in the survey. All of them have fulfilled the questionnaire accurately, without any gaps or unanswered questions. After the mentioned step, it has been needed to collect the data from the customers in case to compare with manager’s data and define objective figures. During the second step, the questionnaire has been sent to the customers of each firm. 21 out of 36 respondents have fulfilled the survey accurately. The questionnaire has been sent a second time to the newly defined customers of the remaining 15 companies. After getting 11 correctly answered surveys, the mentioned procedure has been repeated with the remaining 4 company’s customers. At the end of the third attempt customer responses for all 36 companies have been accurately collected.

The next step was the collection of the gathered data for each company and detection of the final figure for its CSR orientation. Two columns have been created for each company. First for the manager responses and second for the customer answers. The last row of each column calculated the average score of 16 answered questions. Consequently, the author got 2 final figures for each company (one from the manager and one from the customer). For the detection of the definitive, objective figure about CSR orientation average result from 2 above mentioned final figures has been established. So, at the end of the current step, the CSR orientation of each firm has been finally established (see “table 7” page 30). For more clarity, it should be mentioned that there is one final figure of CSR orientation for each company. The questionnaire measures four CSR dimensions such as economic, legal, ethical, and discretionary. There are four questions for each dimension with a total amount of 16 questions. By the author’s decision it would be clearer and more useful for analysis if from all answers would be made one final figure for CSR orientation than each figure for four dimensions.

According to “Table 7” it can be said that the CSR orientation of the Georgian business is higher than it is expected from the developing country. With the figure of 3.77 out of 5 the mean represents around 75% which is quite a high percentage not only for Georgia but for many developed countries. Moreover, it is worth noting that the minimal figure which is 3.1875 represents more than 63%. Mentioned objective information allows to say that the business environment in Georgia is socially responsible if compared with developing countries. The fact that there is a company which got a 100% figure with 5 point answer for all 16 questions as from managers' as from customers' side, makes one more strong argument for socially responsible behavior of Georgian firms.

After the general look, it would be interesting to go deeper in analysis and look wider at the results. The most socially responsible area of business in Georgia is a distribution with a mean of 4.04 out of 5 which amounted more than 80%. It is logical that the lowest figure we had, is in the financial sector with a mean of 3.44 (68.8%). Also a low percentage is in an important area for CSR such as health & pharmacy with figure 3.6 (72%). Almost similar and quite high figures are in areas such as manufacturing (3.94) and construction (3.98), consequently, 78.8% and 79.6%. As for telecommunications, from which there are 2 companies out of 36, the figure is 74.4% with a mean of 3.72.

In addition, attention could be paid to the figures by the size of the companies (e.g. by categories). As for the second category companies (7 out of 36) the mean of CSR orientation is 3.74 in the figure, correspondingly, 74.82%. The average orientation of the First category companies (11 out of 36) is the highest with the mean of 3.83 in figures (76.65%). The lowest average CSR orientation has the biggest 4 companies (Entities of private interest) in our list of 36, with the mean of 69% which is 3.45 out of 5 in figures.

One of the most interesting parts of the current subchapter is to compare the CSR orientation of the three member companies of the "UN Global Compact Georgia" with others. The lowest level of CSR is detected in "JSC Silknet". With a final score of 3.56 (71.25%) company is 22nd out of 36 in the ranking. The second is "JSC TBC Bank" with figure 3.66 (73.12%). The company is 12th on the list. Even though, it should be mentioned that with the level of CSR "TBC Bank" is the leader of the financial sector and its score is higher than the mean of the sector of activity (3.44). The first one in the list of the members of the "UN Global Compact Georgia" and the 6th in overall ranking with the score 4.03 (80.6%) is "LTD Adjara Group". It can be concluded that the membership of the "Global compact" is not a crucial factor of the socially responsible activity from the company's side in Georgia. There are companies without mentioned membership which better manage CSR activities.

It was expected in previous chapters that the expectations of stakeholders are higher than the real level of CSR in Georgia. Despite the quite appropriate figures and high level of CSR in the mentioned country, it can be seen in results that the expectations are really higher. In 35 cases out of 36 final figures of managers' answers are higher than customers' responses. CSR orientation of companies seen by managers is on average 1.15th -1.18th more than CSR level seen by customers. There is only one company with the same results for the managers and customers and no one with customers' higher answer than managers'.

Table 7. CSR orientation (final figures).

company	Industry	Category	Legal form	Age	CSR orientation (management)	CSR orientation (customer)	Avarage final figure
Adjara Group	Agriculture	1	LTD	15	4,5625	3,5	4,03125
Anagi	Constraction	1	LTD	30	4,3125	3,8125	4,0625
M2	Construction and real estate	2	JSC	14	3,9375	2,75	3,34375
Pheri	Construction and real estate	1	LTD	24	3,9375	3,5625	3,75
Gorgia	construction and retail	1	LTD	12	4,75	4,25	4,5
Modus	construction and retail	1	LTD	14	4,375	4,0625	4,21875
Philip Morris Georgia	Distribution	1	LTD	10	4,1875	3,375	3,78125
GDM	Distribution	2	LTD	15	4,5	3,4375	3,96875
Elizi group	Distribution	1	LTD	16	4,625	4,125	4,375
Finca Bank	Finance	1	JSC	13	3,875	2,875	3,375
Credo Bank	Finance	PIE	JSC	13	3,9375	3,125	3,53125
Terrabank	Finance	1	JSC	13	4	3,125	3,5625
Procredit Bank	Finance	1	JSC	21	4,0625	2,75	3,40625
Basis Bank	Finance	1	JSC	24	3,9375	2,5625	3,25
Kartu Bank	Finance	2	JSC	24	4,0625	2,6875	3,375
TBC Bank	Finance	PIE	JSC	24	4,25	3,0625	3,65625
Liberty Bank	Finance	1	JSC	25	3,9375	2,75	3,34375
VTB Bank	Finance	PIE	JSC	25	4	2,8125	3,40625
Bank of Georgia	Finance	1	JSC	25	4,1875	2,8125	3,5
Globalpharm	Health & pharmacy	2	LTD	16	4,1875	3,9375	4,0625
Imedi L	Health & pharmacy	PIE	JSC	22	3,875	2,5	3,1875
PSP	Health & pharmacy	1	LTD	26	4,125	3	3,5625
Barambo	Manufacturing	1	LTD	11	4,6875	4,125	4,40625
Mina	manufacturing	2	JSC	23	3,9375	3,5	3,71875
Coca-Cola bottlers Georgia	manufacturing	1	JSC	24	4,4375	3	3,71875
Foodmart	Retail & consumer goods	1	JSC	7	4,125	3,3125	3,71875
Duty free Georgia	Retail & consumer goods	2	LTD	9	4,625	4,4375	4,53125
Ori Nabiji	Retail & consumer goods	1	LTD	10	4,1875	3,6875	3,9375
GT group	Retail & Service	1	LTD	15	4,5625	4,25	4,40625
Elit electronics	Retail and consumer goods	1	JSC	15	3,875	2,75	3,3125
Nikora	Retail and consumer goods	2	JSC	22	3,9375	2,4375	3,1875
Altaokey	Retail and consumer goods	1	LTD	23	3,9375	2,875	3,40625
Tegeta motors	Service	1	LTD	24	4,0625	3,4375	3,75
Silknet	Telecommunications	1	JSC	11	4	3,125	3,5625
Magticom	Telecommunications	1	LTD	24	4	3,75	3,875
Metro Avrasya Georgia	Tourism & real estate	1	JSC	10	5	5	5

In conclusion, it can be said that the mentioned fact in "Chapter 2.1" about the increasing amount of socially responsible firms in Georgia in the last years has been approved by the results of the survey. Results show that as of today, the level of CSR in this country is quite good, at least in the big companies. Even though, the expectations of stakeholders are still higher than the real level and they require more social activity from the private sector.

It should be noted that the aim of the current study is to detect the impact of CSR on financial performance. On the one hand, the study has already detected the level of CSR in Georgia. On the other hand, the impact of such activity on financial performance is still unknown. So, since the second step of the general plan is finished, the study has to move forward to the third step.

2.4. Dependent variables

2.4.1. Indirect variables of financial performance

The same quantitative method as for measuring CSR orientation, namely questionnaire-based survey, has been used to measure the indirect variables of corporate financial performance such as reputation, competitive advantage, and long-term orientated effectiveness. Three different 5 point Likert scale questionnaires from "strongly disagree" to "strongly agree" (one for each variable) have been sent in parallel with the CSR survey to the same top-managers and customers of 36 companies. The data has been collected accurately and without any gaps for each of the three surveys.

The scale offered by Weiss, Anderson & Macinnis, (1999), which contains five questions in total (see "appendixes", "table 2"), has been used for measuring the corporate reputation of companies. Results can be seen in "Table 8" below:

Table 8. Corporate reputation (final figures).

company	Industry	Category	Legal form	Age	Corporate reputation (management)	Corporate reputation (customer)	Final figure
Ajara Group	Agriculture	1	LTD	15	4,2	3,8	4
Anagi	Constraction	1	LTD	30	4,6	4	4,3
M2	Construction and real estate	2	JSC	14	4,4	3,4	3,9
Pheri	Construction and real estate	1	LTD	24	4,6	3,4	4
Gorgia	construction and retail	1	LTD	12	5	4,4	4,7
Modus	construction and retail	1	LTD	14	4,6	4,2	4,4
Philip Morris Georgia	Distribution	1	LTD	10	4,4	3,8	4,1
GDM	Distribution	2	LTD	15	4,4	3,6	4
Elizi group	Distribution	1	LTD	16	5	4	4,5
Finca Bank	Finance	1	JSC	13	4,8	3,6	4,2
Credo Bank	Finance	PIE	JSC	13	4,4	3,2	3,8
Terrabank	Finance	1	JSC	13	4,4	3,6	4
Procredit Bank	Finance	1	JSC	21	4,4	3,8	4,1
BasisBank	Finance	1	JSC	24	4,4	3,6	4
Kartu Bank	Finance	2	JSC	24	4,2	3,4	3,8
TBC Bank	Finance	PIE	JSC	24	4,4	3,8	4,1
Liberty Bank	Finance	1	JSC	25	4,2	3,6	3,9
VTB Bank	Finance	PIE	JSC	25	4,6	3,2	3,9
Bank of Georgia	Finance	1	JSC	25	4,6	4,2	4,4
Globalpharm	Health & pharmacy	2	LTD	16	4,4	3,8	4,1
Imedi L	Health & pharmacy	PIE	JSC	22	4,2	3,4	3,8
PSP	Health & pharmacy	1	LTD	26	4,4	3,8	4,1
Barambo	Manufacturing	1	LTD	11	4,6	3,8	4,2
Mina	manufacturing	2	JSC	23	4,6	4	4,3
Coca-Cola bottlers Georgia	manufacturing	1	JSC	24	4,4	3,4	3,9
Foodmart	Retail & consumer goods	1	JSC	7	4,4	3,8	4,1
Duty free Georgia	Retail & consumer goods	2	LTD	9	5	4,6	4,8
Ori Nabiji	Retail & consumer goods	1	LTD	10	4,6	3,8	4,2
GT group	Retail & Service	1	LTD	15	5	4,2	4,6
Elit electronics	Retail and consumer goods	1	JSC	15	4,2	3	3,6
Nikora	Retail and consumer goods	2	JSC	22	4,6	3,4	4
Altaokey	Retail and consumer goods	1	LTD	23	4,4	3	3,7
Tegeta motors	Service	1	LTD	24	4,4	3,8	4,1
Silknet	Telecommunications	1	JSC	11	4,6	3,6	4,1
Magticom	Telecommunications	1	LTD	24	4,8	4	4,4
Metro Avrasya Georgia	Tourism & real estate	1	JSC	10	5	4,8	4,9

According to "Table 8" it can be concluded that the mean of corporate reputation is 4.14 out of 5 which amounts to 82.8%. The highest figure is 4.9 which is 98% of the possible maximum.

The minimal figure which exists in results is 3.6 (72%). If looked more closely, it can be seen that managers value their firm's reputation higher than it is in practice. The answers of managers of all 36 companies are higher than the answers of customers. The mean for companies' top executives is 4.53 while the mean of customers' amounts to 3.74 which is 1.2x times less.

As for sectors of business, the highest level of reputation 87.4% exists in the construction sector with average figure 4.37 out of 5. Close to the mentioned figures are sectors of telecommunication (with average score 4.25) and distribution (with average score 4.2), correspondingly, 85% and 84%. To around 82% are companies from the manufacturing and retail & consumer goods sectors. The average score for manufacturing firms is 4.1, for retail & consumer goods 4.14. With a mean of 4 out of 5, the lowest level of reputation exists in the health & Pharmacy and financial sectors (80%).

On the other hand, if look at the figures from the size of the companies, it can be mentioned that the highest average figure of reputation exists in firms of the first category 4.18 out of 5 (83.6%). The lowest level is in entities of public interest with a mean 3.9 (78%). As for second category enterprises, the average figure 4.13 amounts to 82.6%.

It is interesting to look at the reputation of three companies which are members of "UN Global compact Georgia". The reputation of all three companies, with figure 4 for "LTD Adjara group" and 4.1 for "JSC TBC Bank" as well as for "JSC Silknet", are very close to the mean.

With twelve questions in total, the scale developed by Quinn & Rohrbaugh, (1983) measures four aspects of competitive advantage, such as internal process, open system, rational goal, and human relations, with 3 questions to each of them (see "appendixes", "table 3"). The data which have been collected after receiving the answers of all participants to the mentioned questionnaire can be seen in "table 9" (page 33).

"Table 9" shows that the maximum amount of final figure for competitive advantage is 4.79 while the minimum amounts 3.29. So, the figures vary from 65.8% to 95.8%. The counted mean is 80.2% which is 4.01 in figures. Like the results for corporate reputation, in case of competitiveness, managers' final figures are also higher than customers' (in all 36 cases). While the mean of customers' is 3.57, managers' results are 1.24x more and amount 4.45.

The most competitive sectors of activity are construction and distribution, with average figures 4.24 and 4.22 out of 5. Very close to the mean are sectors such as manufacturing (3.96), telecommunication (3.99), and retail & consumer goods (3.99). The lowest figure such as 3.89

goes to the health & pharmacy and financial sectors. On the other hand, it should be mentioned that according to results, the most competitive are the firms of the first category with a mean 4.06 which is more than the average score (4.01). The less competitive are the entities of public interest with the average score 3.83 out of 5. As for the second category firms, the mean amounts 79.2% which is 3.96 in figures. It is worth noting that the coefficients of the competitiveness of all three member companies of the “UN global compact Georgia” are higher than the mean. In addition, “TBC Bank” with a score 4.67 is the most competitive company of the financial sector. Also, the “JSC Silknet” is the leader by the competitive advantage in its sector of activity with figure 4.04.

Table 9. Competitive advantage (final figures).

company	Industry	Category	Legal form	Age	Competitive Advantage (management)	Competitive Advantage (customer)	Final figure
Ajara Group	Agriculture	1	LTD	15	4,583	3,583	4,083
Anagi	Constraction	1	LTD	30	4,5	3,83	4,165
M2	Construction and real estate	2	JSC	14	4,25	3,416	3,833
Pheri	Construction and real estate	1	LTD	24	4,416	3	3,708
Gorgia	construction and retail	1	LTD	12	4,583	4,416	4,4995
Modus	construction and retail	1	LTD	14	4,75	4,16	4,455
Philip Morris Georgia	Distribution	1	LTD	10	4,66	3,916	4,288
GDM	Distribution	2	LTD	15	4,33	3,16	3,745
Elizi group	Distribution	1	LTD	16	4,916	4,33	4,623
Finca Bank	Finance	1	JSC	13	4,5	3,583	4,0415
Credo Bank	Finance	PIE	JSC	13	4,166	2,916	3,541
Terrabank	Finance	1	JSC	13	4,333	3,166	3,7495
Procredit Bank	Finance	1	JSC	21	4,25	3,583	3,9165
BasisBank	Finance	1	JSC	24	4,25	3,25	3,75
Kartu Bank	Finance	2	JSC	24	4,25	3,416	3,833
TBC Bank	Finance	PIE	JSC	24	4,916	4,416	4,666
Liberty Bank	Finance	1	JSC	25	4,083	2,666	3,3745
VTB Bank	Finance	PIE	JSC	25	4,416	3,083	3,7495
Bank of Georgia	Finance	1	JSC	25	4,5	4	4,25
Globalpharm	Health & pharmacy	2	LTD	16	4,33	3,83	4,08
Imedi L	Health & pharmacy	PIE	JSC	22	4	2,75	3,375
PSP	Health & pharmacy	1	LTD	26	4,416	4	4,208
Barambo	Manufacturing	1	LTD	11	4,5	3,75	4,125
Mina	manufacturing	2	JSC	23	4,416	3,666	4,041
Coca-Cola bottlers Georgia	manufacturing	1	JSC	24	4,083	3,083	3,583
Foodmart	Retail & consumer goods	1	JSC	7	4,66	3,25	3,955
Duty free Georgia	Retail & consumer goods	2	LTD	9	4,75	4,416	4,583
Ori Nabiji	Retail & consumer goods	1	LTD	10	4,66	3,75	4,205
GT group	Retail & Service	1	LTD	15	4,83	4,16	4,495
Elit electronics	Retail and consumer goods	1	JSC	15	3,83	2,75	3,29
Nikora	Retail and consumer goods	2	JSC	22	4,25	2,916	3,583
Altaokey	Retail and consumer goods	1	LTD	23	4,5	3,416	3,958
Tegeta motors	Service	1	LTD	24	4,33	3,416	3,873
Silknet	Telecommunications	1	JSC	11	4,5	3,583	4,0415
Magticom	Telecommunications	1	LTD	24	4,583	3,33	3,9565
Metro Avrasya Georgia	Tourism & real estate	1	JSC	10	4,916	4,66	4,788

The third and the last indirect variable of the corporate financial performance in the current study is long-term orientated effectiveness. The 5 points Likert scale questionnaire with four items for measuring the company’s long-term orientation successfully used by Wang & Bansal (2012) has been sent to the participants in parallel with the three above mentioned surveys (see “appendixes” “table 4”). It is worth noting that unlike other surveys, this questionnaire has been sent only to the top-managers in order to prevent response bias. It is argued that the long-term orientation is the process which is planned inside the company. Moreover, it is hard to observe in a short time period. So, customers could be incompetent in valuing the mentioned variable. Collected data is provided below in “Table 10”.

Table 10. Long-term orientation (final figures).

company	Industry	Category	Legal form	Age	Long-term orientation
Ajara Group	Agriculture	1	LTD	15	4
Anagi	Constraction	1	LTD	30	4,5
M2	Construction and real estate	2	JSC	14	3,25
Pheri	Construction and real estate	1	LTD	24	4,25
Gorgia	construction and retail	1	LTD	12	5
Modus	construction and retail	1	LTD	14	4,75
Philip Morris Georgia	Distribution	1	LTD	10	4,5
GDM	Distribution	2	LTD	15	4,25
Elizi group	Distribution	1	LTD	16	5
Finca Bank	Finance	1	JSC	13	4
Credo Bank	Finance	PIE	JSC	13	4
Terrabank	Finance	1	JSC	13	4,25
Procredit Bank	Finance	1	JSC	21	4,25
BasisBank	Finance	1	JSC	24	4,25
Kartu Bank	Finance	2	JSC	24	4,5
TBC Bank	Finance	PIE	JSC	24	4,5
Liberty Bank	Finance	1	JSC	25	4,75
VTB Bank	Finance	PIE	JSC	25	4,25
Bank of Georgia	Finance	1	JSC	25	4,25
Globalpharm	Health & pharmacy	2	LTD	16	4
Imedi L	Health & pharmacy	PIE	JSC	22	3,5
PSP	Health & pharmacy	1	LTD	26	4,5
Barambo	Manufacturing	1	LTD	11	5
Mina	manufacturing	2	JSC	23	4,25
Coca-Cola bottlers Georgia	manufacturing	1	JSC	24	3,75
Foodmart	Retail & consumer goods	1	JSC	7	4,5
Duty free Georgia	Retail & consumer goods	2	LTD	9	5
Ori Nabiji	Retail & consumer goods	1	LTD	10	4,5
GT group	Retail & Service	1	LTD	15	5
Elit electronics	Retail and consumer goods	1	JSC	15	3
Nikora	Retail and consumer goods	2	JSC	22	3,5
Altaokey	Retail and consumer goods	1	LTD	23	4,25
Tegeta motors	Service	1	LTD	24	4
Silknet	Telecommunications	1	JSC	11	4
Magticom	Telecommunications	1	LTD	24	4,5
Metro Avrasya Georgia	Tourism & real estate	1	JSC	10	5

With the mean 4.3 the results provided in “Table 10” shows that the listed companies are long-term orientated in general. If look more closely, with the minimum figure 3 and the maximum 5, it can be said that the level of long-term orientation is high in Georgian business.

The most long-term orientated companies are the firms of the first category with an average coefficient of 4.39. As for the second category companies, the mean amounts to 4.11. With 81.2%, the long-term orientation (4.06 out of 5) of the entities of the public interest is also high. By the sectors of activity, the level of the long-term orientation is also high in each of them, with a minimum coefficient of 4 for the health & pharmacy and the maximum – 4.6 for the distribution. The means of the other sectors are as follows: 4.2 for retail & consumer goods, 4.3 for the financial sector, 4.25 for telecommunications and manufacturing, and 4.5 for construction.

The current subchapter can be concluded as the data about the indirect variables of the financial performance of all 36 participants has been gathered and analyzed. The figures of the first three dependent variables, such as corporate reputation, competitive advantage, and a long-term orientation, are clear so far.

2.4.2. Direct variables of financial performance

The fourth step of the early composed seven-phase plan is to collect the data about the direct variables of the financial performance. The current study has used accounting-based indicators of financial performance, such as return on assets (ROA), return on equity (ROE), return on sales (ROS), and net profit.

Due to the Georgian law about the audit and accountancy entities of the public interest as well as first and second category companies are obliged to present the financial statement with the conclusion of the independent audit company at the end of the fiscal year. So, the very correct way was to go and take all the necessary data from the published financial statements. The collected data about the direct variables of the financial performance of all 36 companies have been taken from the webpage "REPORTAL.GE". The current study uses the newest data, which is the figures from the financial statements of the fiscal year 2018. The described process seems to be very simple and easy to do. Even though, after seeing all 36 financial statements, the only directly found variable was net income of the year 2018 (see "Table 11").

Table 11. Net income for the fiscal year 2018 (in Georgian currency Lari).

Company	Net income	Industry	Category	Legal form	Age
Ajara Group	9190	Agriculture	1	LTD	15
Anagi	31556	Construction	1	LTD	30
M2	6356	Construction & Real estate	2	JSC	14
Pheri	28514	Construction & Real estate	1	LTD	24
Gorgia	12463088	Construction & retail	1	LTD	12
Modus	9706456	Construction & retail	1	LTD	14
Elizi group	19460536	Distribution	1	LTD	16
Philip Morris Georgia	2329743	Distribution	1	LTD	10
GDM	8271	Distribution	2	LTD	15
Liberty Bank	57200	Finance	1	JSC	25
Terrabank	20170	Finance	1	JSC	13
Credo Bank	20191	Finance	PIE	JSC	13
VTB Bank	26949	Finance	PIE	JSC	25
Procredit Bank	26398	Finance	1	JSC	21
Kartu Bank	26204	Finance	2	JSC	24
BazisBank	37292	Finance	1	JSC	24
Bank of Georgia	343528	Finance	1	JSC	25
Finca Bank	718437	Finance	1	JSC	13
TBC Bank	433300	Finance	PIE	JSC	24
Imedi L	2948	Health & pharmacy	PIE	JSC	22
Globalpharm	13621	Health & pharmacy	2	LTD	16
PSP	459572	Health & pharmacy	1	LTD	26
Coca-Cola bottlers Georgia	19155	Manufacturing	1	JSC	24
Barambo	220508	Manufacturing	1	LTD	11
Mina	3049080	Manufacturing	2	JSC	23
Elit electronics	5676	Retail & consumer goods	1	JSC	15
Nikora	6986	Retail & consumer goods	2	JSC	22
Altaokey	813270	Retail & consumer goods	1	LTD	23
Foodmart	1170183	Retail & consumer goods	1	JSC	7
Ori Nabiji	4050730	Retail & consumer goods	1	LTD	10
Duty free Georgia	11531023	Retail & consumer goods	2	LTD	9
GT group	10467947	Retail & Service	1	LTD	15
Tegeta motors	19242	Service	1	LTD	24
Magticom	106944	Telecommunication	1	LTD	24
Silknet	10276	Telecommunication	1	JSC	11
Metro Avrasya Georgia	67292299	Tourism & Real estate	1	JSC	10

Variables such as return on assets, return on equity, and return on sales were not mentioned in the statements. So, the only way to collect the data was to take the necessary figures from the statements and count the mentioned variables manually. The way financial indicators have been calculated can be seen in “Figure 3” below.

Figure 3. Formulas for counting financial indicators.

$$\mathbf{ROA} = \frac{\textbf{Net income}}{\textbf{Average total assets} = \text{assets at the end of the current year + assets at the end of preceding year / 2}}$$

$$\mathbf{ROE} = \frac{\textbf{Net income}}{\textbf{Shareholder's equity} = \text{Assets – Liabilities}}$$

$$\mathbf{ROS} = \frac{\textbf{Operating profit} = \text{Earning before interest and taxes (EBIT)}}{\textbf{Net sales}}$$

As for counting return on assets (ROA) have been needed figures such as net income, assets at the end of the fiscal year 2018, and assets at the end of the year 2017 (see results in “Table 12” page 38).

According to “table 12,” it can be calculated that the mean of return on assets of all 36 companies is 7.99%, which is quite acceptable and a good index (ROA over 5% is generally considered good). The minimal figure 0.24% can be seen next to the company “Finca bank”. The maximum figure for the ROA from the listed 36 companies is generated by the “Pheri LTD” – 20.30%.

If analyzed more deeply, the highest level of return on assets for the year 2018 was in the construction sector with a mean of 12.61%. Also, high levels of ROA can be seen in the distribution and manufacturing sectors with a means of 11.99% and 11.04%. The lowest index of ROA with a mean of 2.26% has been calculated for the financial sector. Quite similar are means for the health & pharmacy (8.51%) and retail & consumer goods (8.21%) sectors. As for the companies from the telecommunication sector, the mean is 6.68%. If split the listed companies by the categories, for the first category firms the mean would be 8.45%. For the entities of the public interest calculated mean is 3.18%. The highest mean can be seen for the second category companies with the figure 9.08%.

Table 12. Return on assets for the fiscal year 2018 (in Georgian currency - Lari).

Company	Net income	Avarage assets for 2017	Avarage assets for 2018	Avarage total assets	ROA
Adjara Group	9190	64061	57453	60757	**15,13%**
Anagi	31556	183341	177101	180221	**17,51%**
Pheri	28514	139921	140940	140430,5	**20,30%**
M2	6356	210458	261403	235930,5	**2,69%**
Gorgia	12463088	93965535	107447087	100706311	**12,38%**
Modus	9706456	89642614	101706045	95674329,5	**10,15%**
Elizi group	19460536	122998079	116000990	119499534,5	**16,29%**
Philip Morris Georgia	2329743	88705126	112720467	100712796,5	**2,31%**
GDM	8271	41024	54270	47647	**17,36%**
Liberty Bank	57200	1703477	1840233	1771855	**3,23%**
Terrabank	20170	838751	966925	902838	**2,23%**
Procredit Bank	26398	1358538	1498909	1428723,5	**1,85%**
BazisBank	37292	1231599	1435790	1333694,5	**2,80%**
Bank of Georgia	343528	12620716	14523587	13572151,5	**2,53%**
Finca Bank	718437	295354265	297009851	296182058	**0,24%**
Kartu Bank	26204	1302141	1213494	1257817,5	**2,08%**
Credo Bank	20191	614692	776623	695657,5	**2,90%**
VTB Bank	26949	1596192	1649003	1622597,5	**1,66%**
TBC Bank	433300	12760055	15188681	13974368	**3,10%**
PSP	459572	23199644	21856586	22528115	**2,04%**
Globalpharm	13621	69813	78091	73952	**18,42%**
Imedi L	2948	51633	64619	58126	**5,07%**
Coca-Cola bottlers Georgia	19155	185040	208931	196985,5	**9,72%**
Barambo	220508	1032290	1229138	1130714	**19,50%**
Mina	3049080	83400789	73564346	78482567,5	**3,89%**
Elit electronics	5676	56381	57551	56966	**9,96%**
Altaokey	813270	28208325	22622719	25415522	**3,20%**
Foodmart	1170183	42585772	51826163	47205967,5	**2,48%**
Ori Nabiji	4050730	37137086	51021505	44079295,5	**9,19%**
Nikora	6986	194128	241885	218006,5	**3,20%**
Duty free Georgia	11531023	68544156	76287277	72415716,5	**15,92%**
GT group	10467947	77499797	84617517	81058657	**12,91%**
Tegeta motors	19242	187830	249218	218524	**8,81%**
Magticom	106944	969691	939867	954779	**11,20%**
Silknet	10276	257380	697621	477500,5	**2,15%**
Metro Avrasya Georgia	67292299	431489534	584461091	507975312,5	**13,25%**

Figures about the net income, assets, and liabilities for the fiscal year 2018 have been collected in case to calculate the return on equity (ROE) of the companies (see results in “Table 13” page 38).

If analyze “Table 13”, it can be said that the mean for the listed 36 firms, which is 25.22% is quite a good index (ROE of 15-20% is generally considered good). The lowest ROE for the year 2018 from the participant companies has “Finca Bank” with the figure 1.71%. As for the highest, with the great index 128.39% the leader of the list is “Ori Nabiji LTD”.

The only sector with a mean lower than acceptable 15-20% is financial (14.03%). Means of the sectors such as manufacturing (24%), construction (24.36%), and retail & consumer goods (29.21%) are near to the acceptable minimum. The highest average figures of ROE can be seen in the health & pharmacy (43.72%) and distribution (47.74%) sectors. If look at the average scores by the categories, all means are near to acceptable figures. 14.93% for the entities of the public interest, 25.94% for the first category companies, and 28.52% for the second category firms.

Table 13. Return on equity for the fiscal year 2018 (in Georgian currency Lari).

Company	Net income	Assets	Liabilities	Shareholder's equity	ROE
Elit electronics	5676	57551	7589	49962	**11,36%**
Imedi L	2948	64619	41079	23540	**12,52%**
Coca-Cola bottlers Georgia	19155	208931	114059	94872	**20,19%**
Liberty Bank	57200	1840233	1569867	270366	**21,16%**
M2	6356	261403	140733	120670	**5,27%**
Tegeta motors	19242	249218	170332	78886	**24,39%**
Nikora	6986	241885	177713	64172	**10,89%**
Ajara Group	9190	57453	23455	33998	**27,03%**
Terrabank	20170	966925	819170	147755	**13,65%**
Pheri	28514	140940	39557	101383	**28,13%**
Credo Bank	20191	776623	647146	129477	**15,59%**
VTB Bank	26949	1649003	1393939	255064	**10,57%**
Magticom	106944	939867	276667	663200	**16,13%**
Procredit Bank	26398	1498909	1312969	185940	**14,20%**
Kartu Bank	26204	1213494	867377	346117	**7,57%**
BazisBank	37292	1435790	1186256	249534	**14,94%**
Altaokey	813270	22622719	16898015	5724704	**14,21%**
Silknet	10276	697621	623117	74504	**13,79%**
Bank of Georgia	343528	14523587	12792559	1731028	**19,85%**
Barambo	220508	1229138	741833	487305	**45,25%**
Anagi	31556	177101	67109	109992	**28,69%**
Mina	3049080	73564346	27156885	46407461	**6,57%**
Globalpharm	13621	78091	66151	11940	**114,08%**
Gorgia	12463088	107447087	79774567	27672520	**45,04%**
Elizi group	19460536	116000990	30114092	85886898	**22,66%**
Modus	9706456	101706045	35664754	66041291	**14,70%**
PSP	459572	21856586	11770761	10085825	**4,56%**
GT group	10467947	84617517	32389686	52227831	**20,04%**
Philip Morris Georgia	2329743	112720467	109837713	2882754	**80,82%**
Foodmart	1170183	51826163	22950478	28875685	**4,05%**
GDM	8271	54270	33456	20814	**39,74%**
Metro Avrasya Georgia	67292299	584461091	90407995	494053096	**13,62%**
Ori Nabiji	4050730	51021505	47866546	3154959	**128,39%**
Duty free Georgia	11531023	76287277	1982180	74305097	**15,52%**
Finca Bank	718437	297009851	254998201	42011650	**1,71%**
TBC Bank	433300	15188681	13128328	2060353	**21,03%**

According to the above-mentioned formula for calculating the return on sales, figures such as operating profit (earnings before interest and taxes - EBIT) and net sales are needed. In the financial statements of all 36 companies, it is possible to find the operating profit figures, even though, about the net sales there is no information. So, to collect the data about the ROS from financial statements was impossible. The only way to collect the mentioned data was to ask the financial departments of participant firms directly. On the one hand, it could take a lot of time to wait for their responses. On the other hand, there was a possibility that not all of them would answer and provide the data. Due to the described facts, it has been decided to exclude the return on sales as a financial indicator from the current study. In case not to lose one financial indicator and not to narrow our analysis, it has been decided to replace ROS with one of the most important variables of financial performance, such as the current ratio.

To calculate the newly defined indicator (current ratio), data about the total current assets and total current liabilities of the fiscal year 2018 for all 36 companies has been collected (current ratio = total current assets / total current liabilities). (See results in "Table 14" below).

Table 14. Current ratio for the fiscal year 2018 (in Georgian currency Lari).

Company	total current assets	total current liabilities	Current ratio
Elit electronics	50894	50009	1,02%
Imedi L	41902	35113	1,19%
Coca-Cola bottlers Georgia	34807	46159	0,75%
Liberty Bank	1678646	1561654	1,07%
M2	14288	134972	0,11%
Tegeta motors	156934	106275	1,48%
Nikora	86001	132279	0,65%
Ajara Group	2497	4483	0,56%
Terrabank	925350	747365	1,24%
Pheri	32226	34310	0,94%
Credo Bank	756454	619601	1,22%
VTB Bank	1470985	1265839	1,16%
Magticom	66547	203338	0,33%
Procredit Bank	1412030	855735	1,65%
Kartu Bank	1181559	867377	1,36%
BazisBank	1252723	841728	1,49%
Altaokey	19977572	16898015	1,18%
Silknet	71594	146846	0,49%
Bank of Georgia	14089177	10043211	1,40%
Barambo	922927	741883	1,24%
Anagi	110812	58145	1,91%
Mina	29229222	16656378	1,75%
Globalpharm	51007	55249	0,92%
Gorgia	77701350	75713675	1,03%
Elizi group	114710795	30114092	3,81%
Modus	67924014	9503040	7,15%
PSP	21615269	11770761	1,84%
GT group	37795940	27365363	1,38%
Philip Morris Georgia	109927565	109837713	1,00%
Foodmart	21430634	29702227	0,72%
GDM	51599	33456	1,54%
Metro Avrasya Georgia	415612927	45023684	9,23%
Ori Nabiji	30680286	47708251	0,64%
Duty free Georgia	31583697	1982180	15,93%
Finca Bank	274147465	172566326	1,59%
TBC Bank	14695477	10269238	1,43%

During the analysis of "Table 14," it became clear that the mean of the current ratio for the listed companies is 2.01%. The acceptable current ratio varies from 1.5% to 3%, so the mentioned mean is appropriate. A current ratio under 1% means that the company may have problems with short-term obligations. In our list the figures under 1% have 10 companies, with the lowest 0.11% for the "JSC M2". The figures of the left 26 firms are above 1%, with the highest 15.93% for the "LTD Duty free Georgia".

The only business sector in our list with a mean lower than 1% is a telecommunication (0.41%). Also, low average figures for the current ratio can be seen in the sectors such as financial (1.36%), health & pharmacy (1.32%), and manufacturing (1.25%). On the other hand, in the list are sectors with a higher mean than an acceptable average. As for the distribution sector it's 2.12%, construction – 2.22%, and retail & consumer goods – 2.88%. If split by the categories, the lowest mean has the entities of the public interest 1.25%. The highest average score for the current ratio has the second category companies – 3.18%. As for the first category firms, the mean amounts to 1.81%.

At the end of the fourth step, all necessary data for further analysis has already been collected. After organizing four different questionnaire-based surveys, objective results about the CSR orientation, corporate reputation, competitive advantage, and long-term orientation of the 36 participant companies are provided. On the other hand, after calculations of the financial indicators from 36 different financial statements, figures about the return on assets, return on equity, current ratio, and net profit of all participant companies are also clear. So far, the current study can move further to the last three steps and analyze gathered data for detecting the impact of corporate social responsibility on corporate financial performance in Georgian business.

3. ANALYSIS AND RESULTS

3.1. The impact of CSR on Direct variables of financial performance

Linear regression was run to understand the impact of corporate social responsibility on direct as well as indirect variables of financial performance. To assess linearity a scatterplot of each of seven variables of CFP against CSR orientation with a superimposed regression line was plotted. Visual inspection of these plots indicated a linear relationship between the variables. There were homoscedasticity and normality of the residuals.

The model that describes relationship between independent and dependent variables was:
Dependent variable = b_0 + (b_1 x CSR orientation)

The detailed information about the impact of CSR on each of the variables of CFP is presented below:

Figure 4. The impact of CSR on ROA

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,727[a]	,528	,514	4,4327673%	,528	38,037	1	34	,000

a. Predictors: (Constant), CSR orientation
b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	747,404	1	747,404	38,037	,000[b]
	Residual	668,080	34	19,649		
	Total	1415,484	35			

a. Dependent Variable: ROA
b. Predictors: (Constant), CSR orientation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-31,460	6,439		-4,886	,000	-44,546	-18,374
	CSR orientation	10,460	1,696	,727	6,167	,000	7,013	13,906

a. Dependent Variable: ROA

According to “Figure 4,” it can be said that 52.8% of the variability of the ROA can be explained by CSR. Even with adjusted R square (51.4%) the impact is significant. CSR statistically significantly predicted **ROA** ($F(1, 34) = 38.037$, $P<0.005$). Moreover, the increase of CSR orientation by one unit will lead to an increased ROA by 10.460% (Unstandardized B) and it’s statistically significant ($P<0.005$). The confidence interval is between 7.013 and 13.906.

The model that describes the relationship between CSR and ROA was: **ROA**= -31.460 + (10.460 x CSR orientation).

Figure 5. The impact of CSR on Current ratio

Model Summary[b]

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	,558[a]	,311	,291	2,491377219	,311	15,339	1	34	,000

a. Predictors: (Constant), CSR orientation

b. Dependent Variable: Current Ratio

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	95,209	1	95,209	15,339	,000[b]
	Residual	211,037	34	6,207		
	Total	306,246	35			

a. Dependent Variable: Current Ratio

b. Predictors: (Constant), CSR orientation

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			95,0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	-12,069	3,619		-3,335	,002	-19,424	-4,714
	CSR orientation	3,733	,953	,558	3,917	,000	1,796	5,670

a. Dependent Variable: Current Ratio

"Figure 5" shows that the variability of the current ratio explained by CSR varies from 29.1% to 31.1%, which can be perceived as a medium-size effect. The prediction is statistically significant (F 1, 34 = 15.339, P<0.005). Also, the increase of CSR orientation by one unit will lead to an increase of the current ratio by 3.733 (Unstandardized B) and it is statistically significant (P<0.005). The confidence interval varies from 1.796 up to 5.670. The model that describes the relationship between CSR and Current ratio was**: Current ratio** = -12.069 + (3.733 x CSR)

Figure 6. The impact of CSR orientation on Net profit.

Model Summary[b]

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	,675[a]	,456	,440	8807241,730	,456	28,518	1	34	,000

a. Predictors: (Constant), CSR orientation

b. Dependent Variable: NP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,212E+15	1	2,212E+15	28,518	,000[b]
	Residual	2,637E+15	34	7,757E+13		
	Total	4,849E+15	35			

a. Dependent Variable: NP

b. Predictors: (Constant), CSR orientation

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			95,0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	-63841429,2	12793549,73		-4,990	,000	-89841050,4	-37841808,0
	CSR orientation	17994268,66	3369583,347	,675	5,340	,000	11146451,40	24842085,91

a. Dependent Variable: NP

According to “figure 6,” it can be concluded that at least 44% of net profit variability can be explained by CSR orientation. The impact is almost high and is predicted statistically significantly ($F_{1, 34} = 28.518$, $P<0.005$).

Figure 7. The impact of CSR on ROE

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,293[a]	,086	,059	27,029431%	,086	3,187	1	34	,083

a. Predictors: (Constant), CSR orientation
b. Dependent Variable: ROE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2328,370	1	2328,370	3,187	,083[b]
	Residual	24840,065	34	730,590		
	Total	27168,435	35			

a. Dependent Variable: ROE
b. Predictors: (Constant), CSR orientation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-44,411	39,263		-1,131	,266	-124,204	35,381
	CSR orientation	18,461	10,341	,293	1,785	,083	-2,555	39,477

a. Dependent Variable: ROE

“Figure 7” shows that CSR has a low-level impact on ROE (Adjusted R square = 5.9%). Moreover, prediction is not statistically significant ($p = 0.083$).

After analyzing the impact of CSR on each of four direct variables of financial performance such as ROA, current ratio, ROE, and net profit, “hypothesis 1” is already tested. It can be concluded that the CSR orientation of the company has a significant impact on return on assets and net profit. On the other hand, the impact of CSR on the current ratio is not significant and can be explained as a medium-sized impact. Moreover, there is no relationship between CSR orientation and return on equity. So, the H1 “Corporate social responsibility has a direct positive impact on corporate financial performance” is partly accepted.

3.2. The impact of CSR on indirect variables of financial performance

As for the corporate reputation the model that describes the relationship between CSR and corporate reputation was: **Reputation**=2.059 + (0.551 x CSR orientation). CSR statistically significantly predicted corporate reputation ($F_{1, 34} = 67.306$, $P < 0.005$), accounting for 66.4% of the variation in corporate reputation with adjusted R square 65.5%. An extra unit of CSR leads to 0.551 units increase in corporate reputation (Unstandardized B) and it's statistically significant (P<0.005) (see "figure 8").

Figure 8. The impact of CSR on corporate reputation.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	,815[a]	,664	,655	,1756487078	,664	67,306	1	34	,000

a. Predictors: (Constant), CSR orientation
b. Dependent Variable: Corporate reputation

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,077	1	2,077	67,306	,000[b]
	Residual	1,049	34	,031		
	Total	3,126	35			

a. Dependent Variable: Corporate reputation
b. Predictors: (Constant), CSR orientation

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	95,0% Confidence Interval for B Lower Bound	Upper Bound
1	(Constant)	2,059	,255		8,072	,000	1,541	2,578
	CSR orientation	,551	,067	,815	8,204	,000	,415	,688

a. Dependent Variable: Corporate reputation

Figure 9. The impact of CSR on competitive advantage.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	,752[a]	,566	,553	,2543249308	,566	44,259	1	34	,000

a. Predictors: (Constant), CSR orientation
b. Dependent Variable: Competitive advantage

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,863	1	2,863	44,259	,000[b]
	Residual	2,199	34	,065		
	Total	5,062	35			

a. Dependent Variable: Competitive advantage
b. Predictors: (Constant), CSR orientation

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	95,0% Confidence Interval for B Lower Bound	Upper Bound
1	(Constant)	1,571	,369		4,253	,000	,820	2,322
	CSR orientation	,647	,097	,752	6,653	,000	,450	,845

a. Dependent Variable: Competitive advantage

According to the "figure 9" competitive advantage is statistically significantly predicted by CSR (F 1, 34 = 44.259, P < 0.005). The variation of competitive advantage explained by CSR is

56.6% with the adjusted R square 55.3%. The increase of CSR by one unit will lead on average to an increased competitive advantage by 0.647 units (Unstandardized B) and it's statistically significant (P<0.005). The model that describes the relationship between CSR and competitive advantage was: **Competitive advantage** = 1.571 + (0.647 x CSR orientation).

Figure 10. The impact of CSR on Long term orientated effectiveness.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,702[a]	,493	,478	,3580789340

a. Predictors: (Constant), CSR orientation

b. Dependent Variable: Long term orientated effectiveness

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4,243	1	4,243	33,091	,000[b]
	Residual	4,359	34	,128		
	Total	8,602	35			

a. Dependent Variable: Long term orientated effectiveness

b. Predictors: (Constant), CSR orientation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1,326	,520		2,550	,015	,269	2,383
	CSR orientation	,788	,137	,702	5,752	,000	,510	1,066

a. Dependent Variable: Long term orientated effectiveness

"Figure 10" shows that the variation of long-term orientation predicted by CSR is 49.3% with the adjusted R square 47.8% and it's statistically significantly predicted (F 1, 34 = 33.091, P < 0.005). The model that describes the relationship between CSR and long-term orientation was: **Long-term orientation** = 1.326 (0.788 x CSR orientation). Moreover, the extra CSR unit leads to an increase in long-term orientated effectiveness by 0.788 units (Unstandardized B) and it's statistically significant (P<0.005).

In conclusion of analysis about the impact of CSR on each of three indirect variables of financial performance, it can be said that in all cases Betas show elasticity. The influence is statistically significant in all three cases. So, hypothesis 2, "corporate social responsibility affects reputation, competitive advantage, and long-term orientated effectiveness positively," is fully accepted.

At the end of this chapter, it can be said that corporate social responsibility has a significant impact on corporate financial performance. H1 is accepted partly, while the results of regression analysis for H2 are fully positive. (See “matrix 3” on page 46 for the simple view of the results of regression analysis.)

Matrix 3. Results of linear regression analysis.

Variables	Correlation	R square	Adjusted R square	P value of F test	Unstandardized Beta	P value	Effect	Hypothesis
CSR→ ROA	0.727	0.528	0.514	<0.001	10.460	<0,001	**high**	**H1 accepted**
CSR→ Current ratio	0.558	0.311	0.291	<0.001	3.733	<0.001	**medium**	**H1 rejected**
CSR→ ROE	0.293	0.086	0.059	= 0.083	18.461	=0.083	**insignificant**	**H1 rejected**
CSR→ Net profit	0.675	0.456	0.440	<0.001	*****	<0.001	**high**	**H1 accepted**
CSR→ Corporate reputation	0.815	0.664	0.655	<0.001	0.551	<0.001	**high**	**H2 accepted**
CSR→ competitive advantage	0.752	0.566	0.553	<0.001	0.647	<0.001	**high**	**H2 accepted**
CSR→ Long-term orientated effectiveness	0.702	0.493	0.478	<0.005	0.788	<0.001	**high**	**H2 accepted**

CONCLUSION AND SUGGESTIONS

The chief aim of the commercial organization is to gain maximum economic benefits. So, while speaking about the engagement of corporate social responsibility practices in the company the crucial point of interest is the relationship between CSR and financial indicators. For the last 30 years, the impact of CSR on financial performance has been analyzed widely by organizational scholars. Even though the relationship between the mentioned two variables is still a point of debate among researchers (Wang & Sarkis, 2017). While some authors (Orlitzky et al, 2003; Wu, 2006; Margolis et al, 2009) speak that the link between CSR and financial performance is positive, their opponents (Friedman, 1970; Preston & O'Bannon, 1997; Becchetti et al, 2012) claim about the negative effects of corporate social responsibility on financial statements. Besides, academic literature provides mixed (Margolis & Walsh, 2001; Luo & Bhattacharya, 2006), neutral or no-significance findings (McWilliams & Siegel, 2000; Soana, 2011) as well.

Critics of the earliest studies (Galbreath & Shum, 2012; Luo & Bhattacharya, 2006) argued about the focus on examining only direct relationship between CSR and financial performance. According to them, some mediating factors have a huge impact on the link which is omitted in many studies. On the other hand, most of the existing studies are based on data from the USA or Western Europe (Galbreath & Shum, 2012). Even though, CSR activities and outcomes in the developing world are important as it will allow to generalize results in the worldwide context.

In order to bring new, interesting findings in academic literature, current study examined the impact of corporate social responsibility on direct variables as well as on indirect variables of financial performance. The sample of the study has been Georgia, East-European developing country which was mainly out from the existed international researches. The findings of the study showed that the level of CSR in big corporations of the Georgian private sector is quite appropriate for the developing country. Even though, the current study supports the fact noted by Khoperia, (2012) that the expectations of stakeholders about CSR engagement in the Georgian business sector are higher than the real level in practice. In 35 cases out of 36 the company's level of social responsibility seen by its managers is higher than the level seen by the company's customers.

The linear regression analysis was run in order to understand the impact of CSR on direct variables of financial performance, such as return on assets, return on equity, current ratio, and net profit. The prediction of the study that corporate social responsibility has a direct positive impact on financial performance has been partly accepted. The regression results showed that CSR engagement has a significant influence on return on assets as well as on the net profit. On the other hand, the impact of CSR on the current ratio has been identified as medium-sized while the relationship between CSR and return on equity was not significant at all. Such findings can be seen as a suggestion for companies to be involved in CSR activities. Despite the fact that CSR has no significant impact on current ratio and return on equity, it will increase significantly financial indicators such as return on assets and net profit. The mentioned two accounting-based indicators are one of the most important for companies' financial statements and they can be gained by CSR activities.

The same linear regression analysis has been used in order to understand the impact of CSR on indirect variables of financial performance such as reputation, competitive advantage, and long-term orientated effectiveness. Results of the analysis fully accepted the prediction that "corporate social responsibility affects reputation, competitive advantage, and long-term orientated effectiveness positively." The findings argue about the important role of CSR activities in gaining reputation which leads to the increasing number of customers. Moreover, CSR will lead to an increased competitive advantage of the company, which is one of the crucial strengths in the market economy. Also, socially responsible firms have more chances to be effective in a long-term period.

The findings of the current study claims about the positive effect of corporate social responsibility on corporate financial performance. According to the results, CSR engagement in the company will lead to the increased accounting-based financial indicators such as return on assets and net profit. Moreover, CSR engagement means gained reputation, competitive advantage, and long-term orientated effectiveness, which in turn, indirectly affects financial performance positively.

Since the current study has focused only on big corporations, further studies can be done in SME's. While working in developing countries, it's important to find a useful instrument for measuring level of CSR in SMEs, in order to get reliable and objective results. Moreover, it can be recommended further studies to be done in other developing countries. Then it will be possible to compare results and generalize them worldwide more accurately. One of the most important and interesting suggestions for future research is to collect continuous data about the variables (at least for the last 3 years), which will allow examining the CSR-CFP relationship as a dynamic process.

Summary

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THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CORPORATE FINANCIAL PERFORMANCE

Final master thesis

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Vilnius University, Faculty of Economics and Business Administration

Global Business and Economics

Vilnius, 2021

Size: 55 pages, 10 figures, 14 tables, 3 matrixes, 4 appendixes

The chief aim of this paper is to detect the impact of corporate social responsibility (CSR) on corporate financial performance (CFP). The current paper examines the impact of CSR on direct as well as indirect variables of financial performance. The sample of the study is Georgia, an East-European developing country, which allows generalizing results worldwide. Linear regression has been chosen as the best method for data analysis. The data about the independent variable (CSR orientation) and three dependent variables (corporate reputation, competitive advantage, and long-term orientated effectiveness) has been gathered by organizing four different questionnaire-based surveys. As for the four dependent variables (return on assets, return on equity, current ratio, and net profit), the data has been taken from published financial statements of the participant companies.

The findings of the paper indicate that CSR has a significant impact on indirect variables of financial performance, such as reputation, competitive advantage, and long-term orientated effectiveness, in the Georgian business sector. In addition, the results show that corporate social responsibility significantly affects direct variables of CFP, such as return on assets and net profit. Besides, despite demonstrating a significant positive relationship between CSR and the mentioned variables of CFP, the findings show no statistically significant impact of CSR on direct variables of CFP, such as current ratio and return on equity, in the Georgian private sector.

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APPENDIXES

Table 1. The scale for measuring company's CSR orientation

	Strongly disagree	Disagree	Non disagree – non agree	Agree	Strongly agree
Economic responsibility					
We have been successful at maximizing our profits					
We strive to lower our operating costs					
We closely monitor employees' productivity					
Top management establishes long-term strategies					
Legal responsibility					
The managers of this organization try to comply with the law					
Our company seeks to comply with all laws regulating hiring and employee benefits					
We have programs that encourage the diversity of our workforce (in terms of age and gender)					
Internal policies prevent discrimination in employees' compensation and promotion					
Ethical responsibility					
Our business has a comprehensive code of conduct					
We are recognized as a trustworthy company					
Fairness towards co-workers and business partners is an integral part of the employee evaluation process					
A confidential procedure is in place for employees to report any misconduct at work					
Discretionary responsibility					
Our business supports employees who acquire additional education					
Flexible company policies enable employees to better coordinate work and personal life					
Our business gives adequate contributions to charities					
A program is in place to reduce the amount of energy and materials wasted in our business					

Source: Maignan & Ferrell, (2000)

Table 2. The scale for measuring corporate reputation.

	Strongly disagree	Disagree	Non disagree – non agree	Agree	Strongly agree
We are seen by customers as being a very professional organization					
Our firm is viewed by customers as one that is successful					
Our firm's reputation is highly regarded					
Customers view our firm as one that is stable					
Our firm is viewed as well-established by customers					

Source: Weiss, Anderson and MaCinnis, (1999)

Table 3. The scale for measuring Competitive advantage.

	Strongly disagree	Disagree	Non disagree – non agree	Agree	Strongly agree
Internal process					
Our products have more quality than those of the rival companies					
Our production processes are more coordinated than those of the rival companies					
We have a better coordinated and organized human resources than the rival companies					
Open System					
Our clients are more satisfied than the clients of the rival companies					
The skill of adjustment to the changeable needs of the markets in our company is better than in in the rival companies					
We have a better image than the rival companies					
Rational goal					
Our market share grows faster than the market share of the rival companies					
Our profitability share grows faster than the profitability of the rival companies					
Our productivity grows faster than the productivity of the rival companies					
Human Relations					

The employees' motivation of our company is higher than the employees' motivation of the rival companies					
We have less workers' voluntary abandonment than the rival companies					
We have less labour absenteeism than the rival companies					

Source: Quinn & Rohrbaugh, (1983)

Table 4. The scale for measuring company's Long-term orientation.

	Strongly disagree	Disagree	Non disagree – non agree	Agree	Strongly agree
As your firm defines strategies, you generally emphasize long-term (over 5 years) goals and strategies					
Your firms' criteria for resource allocation largely reflect long-term considerations					
Your firm emphasizes basic research to build future competitive advantage					
As your firm defines strategies, your major concern is how to build future competitive advantage					

Source: Wang & Bansal, (2012)

Santrauka

Saba Tsintskiladze

ĮMONIŲ SOCIALINĖS ATSAKOMYBĖS POVEIKIS ĮMONĖS FINANSINEI ATSKAITOMYBEI

Baigiamasis magistro darbas

Vilniaus Universitetas, Ekonomikos ir Verslo Administravimo Fakultetas

Tarptautinis verslas ir ekonomika

Vilnius, 2021

Apimtis: 55 puslapiai, 10 iliustracijų, 14 lentelių, 3 matricos, 4 priedai.

Pagrindinis šio darbo tikslas yra nustatyti įmonių socialinės atsakomybės (ĮSA) poveikį įmonių finansinei atskaitomybei (ĮFA). Darbe nagrinėjamas ĮSA poveikis tiesioginiams ir netiesioginiams finansinės atskaitomybės kintamiesiems. Tyrimo imtis yra Gruzija, Rytų Europos besivystanti šalis, kas leidžia apibendrinti rezultatus pasauliniu mastu. Tiesinė regresija buvo pasirinkta, kaip geriausias duomenų analizės metodas. Duomenys apie nepriklausomą kintamąjį (ĮSA orientacija) ir tris priklausomus kintamuosius (įmonės reputacija, konkurencinis pranašumas ir ilgalaikis efektyvumas) buvo surinkti organizuojant keturis skirtingus klausimynais pagrįstus tyrimus. Keturių priklausomų kintamųjų (turto grąža, nuosavo kapitalo grąža, einamasis koeficientas ir grynasis pelnas) duomenys buvo paimti iš paskelbtų įmonių dalyvių finansinių ataskaitų.

Darbo išvados rodo, kad ĮSA turi reikšmingą poveikį netiesioginiams finansinės atskaitomybės kintamiesiems, tokiems kaip reputacija, konkurencinis pranašumas ir ilgalaikis efektyvumas Gruzijos darbo sektoriuje. Išvados taip pat rodo, kad įmonių socialinė atsakomybė stipriai veikia tiesioginius ĮFA kintamuosius, tokius kaip turto grąža ir grynasis pelnas. Taip pat, nepaisant to, kad demonstruojamas reikšmingas teigiamas ryšys tarp ĮSA ir minėtų ĮFĄ kintamųjų, išvados neparodo statistiškai reikšmingo ĮSA poveikio tiesioginiams ĮFA kintamiesiems, tokių kaip dabartinis santykis ir nuosavybės grąža privačiame Gruzijos sektoriuje.