경영학석사학위논문

The Impact of Free Cash Flow on the Firm’s Level of Social Responsibility: the Moderating Role of Firm Leverage

2013년 8월

서울대학교 대학원

경영학과 국제경영

송용길

The Impact of Free Cash Flow on the Firm’s Level of Social Responsibility: the Moderating Role of Firm Leverage

지도교수 조승아

이 논문을 경영학석사학위논문으로 제출함

2013년 8월

서울대학교 대학원

경영학과 국제경영

송용길

송용길의 석사학위논문을 인준함

2013년 8월

위 원 장 송재용 (인)

부 위 원 장 채희상 (인)

위 원 조승아 (인)

Abstract

In recent years companies have significantly increased the amount of resources allocated to corporate social responsibility (CSR). The present paper analyzes the impact of free cash flow on CSR. The paper argues that the availability of free funds, not allocated for other purposes, is a motivational force to invest into CSR. In addition, the study examines the moderating role of firm leverage. It shows that firm leverage negatively moderates the relation between FCF and CSR. The data for 1628 US companies between years of 2005 and 2010 has been employed. Significant results have been obtained both for the positive effect of FCF on CSR and the interacting negative effect of firm leverage.

Key Words: Free Cash Flow, Firm Leverage, Corporate Social Responsibility

Student number: 2011-24267

Table of Contents

1. Introduction

Since the second half of the 20th century enormous attention has been devoted to corporate social responsibility. Nowadays major companies are issuing the corporate social responsibility (CSR) reports and integrating CSR into all aspects of their business. Numerous analysts and mass media are transferring social activities into accountable numbers. Recently a large number of hedge funds are investing only in socially responsible firms.

The ultimate goal of every company is to reach commercial success, but achieving it in a way that considers ethical values, honors communities and natural environment is exactly what can be referred to as corporate social responsibility (Business for Social Responsibility). The existing literature combines different approaches on interpreting CSR. Corporate social responsibility has been accredited as a significant corporate duty by researchers in the field of management (Quinn, Mintzberg, & James, 1987).

McWilliams and Siegel (2001) further describe CSR as an activity to promote some social benefits beyond the interests of the company itself. Generally CSR is intended to positively affect and amplify social stakeholder's welfare (Frooman 1997).

The paper seeks to look at the empirical evidence on how the availability of firm's free funds beyond its needs can be a motivating force to invest in CSR. The results show that the company's free funds not allocated for other purposes can be the reason companies invest in social activities. The study also investigates how capital structure of the firm might affect the CSR overinvestment problem. The results show that controlling for the firm's leverage can help mitigate CSR-conflict.

The sample is taken from 1628 US corporations, the time period for the study is from 2005 to 2010. The reason the sample is taken from the USA is that social responsibility is highly important in American society and recently US corporations have dramatically increased the amount of investments in CSR activities.

After running a GLS Random effects model, the predictors were significantly supported. Free cash flow is significantly correlated with the firm's level of social performance. The model

shows that free funds is a motivation force for managers to invest in CSR activities. Moreover, testing the interaction of free cash flow and firm leverage is significant. It supports the hypothesis that firm debt can refrain from overinvestment in CSR. The study contributes to the existing literature by showing the evidence on the importance of capital structure and its role in mitigating the CSR-conflict.

The remainder of the paper proceeds as follows: section 2 covers the theoretical background and builds the hypothesis, section 3 explains data and sample selection, section 4 looks at the method, section 5 results. Section 6 concludes and provides the discussion and future research.

2. Literature Review & Hypothesis Generation

For a company to be considered socially responsible it has to integrate a broad set of policies related to business operations taking into consideration business ethics, community, environment and human concerns, as well as the welfare of marketplace and workplace (Tsoutsoura 2004).

Tsoutsoura (2004) argues that firms obviously differ in the ways they carry out corporate social responsibility depending on company's size, corporate culture, stakeholders relationships and specific industry company evolves in, as well as how progressive the company's history is in terms of CSR policies. However, important thing here is that successful implementation of CSR depends on its relevance to company's strategic planning, core competencies and commitment of both management and employees.

Based on Friedman's (1970) definition of free society, the goal of corporate social responsibility of any business entity is to utilize its resources wisely and try to increase revenues by staying in the zone of open and free competition without any frauds.

However, CSR policies obviously involve costs like purchasing new environmentally friendly equipment, sponsorship of social events, improving working conditions for employees or regulation of quality controls. And logically apart from costs, CSR must also include benefits in order to be a sustainable business practice. Otherwise, it is impossible for a company to continuously maintain practice, which generates negative cash flows. Moreover, shareholders invest money in a corporation with hopes to generate returns, and they would be unlikely supportive of such practice if it held only costs with no benefits.

Tsoutsoura (2004) evaluates the relationship between CSR and financial performance in her research providing a number of benefits socially responsible companies enjoy. First one on the list is of course the improved brand image and reputation. Companies with high socially responsible status and good reputation usually gain trust from consumers, as well as obtain increased possibility to attract capital and trading partners within business community. Such an increased trust is due to transparency and less intention for bribery and corruption by

companies experiencing CSR principles. Apart from these external benefits, there are also internal ones like less risk of having to recall defective and faulty products or pay expensive fines for pollution due to stricter quality and environmental controls implemented as a part of CSR policy.

The next thing on the list of CSR benefits is the reduction of negative social campaigns, which may damage company's reputation and thus require extensive bills to recover tarnished brand image through information and advertising campaigns.

Moreover, organizations with strong CSR policy often possess amplified ability to attract new and retain existing employees (Turban & Greening 1997). Thus, another important benefit corporate social responsibility can bring is improved employee and client goodwill (Davis, 1975; Soloman & Hansen, 1985).

Therefore, such companies enjoy diminished turnover, recruitment and training costs. Due to regular control of working facilities companies make sure employees work in good conditions which in turn lead to increased productivity and decreased error rates. In accordance with several scholars corporations do benefit from socially responsible activities as far as employee productivity and morale is concerned (Moskowitz, 1972; Parket & Eibert, 1975; Soloman & Hansen, 1985).

However, in any case, the time frame of the costs and benefits of corporate social responsibility can be unfairly distributed, meaning that costs are immediate whereas benefits are usually not incurred even quarterly.

A number of researches up to date prove there is a tendency for companies to suffer from higher explicit costs eventually by ignoring socially responsible policies. For instance, neglecting measures against water or air pollution, a firm may incur heavy fines in the future for excessive environment pollution financially, as well as have tarnished brand image and reputation because of lawsuits or negative word of mouth (Waddock and Graves, 1997; McGuire, et al., 1988,1990; Auperle, et al., 1985).

Moreover, taking into consideration the fact that banks and other financial institutions pay a huge amount of attention to company's social responsibility actions when making investment decisions (Spicer, 1987), above all of positive outcomes from corporate social actions named earlier in the report, Moussavi & Evans (1986) also mention firm's improved relationships with such important standers as investors, bankers, financial and other government officials.

Opposite to the views of Moskowitz (1972) and other supporters, some scholars argue that corporations drag themselves in economically disadvantageous position by carrying out corporate social responsibility actions (Aupperle, Carroll, & Hatfield, 1985; Ullmann, 1985; Vance, 1975).

Thus, it is important to note that financially stable and flourishing companies can afford to focus on more long-term goals like corporate social responsibility with high end strategic benefits like improved public and brand image, increased ability to attract more qualified employees or warm relationships with surrounding community (Tsoutsoura 2004).

Recent studies have mostly been devoted to the impact of corporate social responsibility on the company's future performance regardless the issue of the question: whether CSR determines the company's level of performance or vice versa. Finding the answer seems interesting as numerous studies suggest a positive relationship between the level of CSR and the firm's financial performance.

The common assumption is that CSR activities lead to better financial performance, it means that CSR activities can pay for themselves which is subsequently being reflected in the improvements of the company's corporate performance (Campbell 2006, Nakao et al 2007, etc). Overall over one hundred studies have been devoted to investigating the relation between CSR and financial performance since 1971 (Margolis et al 2002). Most studies follow the following logic: socially responsible companies increase their productivity and employee morale by improving working conditions and facilities. However, another stream of authors think the other way raising the alternative interpretation that companies with good financial performance are more likely to be socially responsible and thus invest more in CSR (Tsoutsoura

2004). Finally, the solving the causation problem it may turn out that both CSR and financial performance are impacting equally on each other with no initial causation.

There are two main theories explaining the management's initial motivations for investing in CSR activities: "management theory" and "slack theory". "Management theory" is similar with the stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995; Waddock and Grave, 1997). The name of the theory says for itself: good management will be more socially responsible and thus invest more in CSR in order to provide the environment that would enable the company to become more effective and financially strong. The implication is that good (socially responsible) management will invest in CSR activities and these investments would subsequently generate stronger financial performance. The "slack resources theory" suggests that the level of the company's social performance is driven by the level of its resources available in excess of needs. In other words, free cash of the company not required for other purposes is the main motivation force to invest in CSR (Buchholtz et al, 1999; Fauzi et al, 2009).

Bird et al (2006) employs a Granger-causality test to identify the direction of causation (lead-lag effects) between corporate free cash flow, CSR activities and corporate performance. Their study shows that the most frequent causation on the company's social responsibility is generated by its free cash flow. The authors state that FCF leads to higher level of investment in CSR activities.

The result of this finding supports the idea that in excess of the company's needs management is likely to invest these funds in CSR activities. Thus, between the two hypotheses the paper supports the idea of "slack resources theory".

Thus, the first hypothesis of the paper is based on the proposition of "slack theory" that free cash of the company not required for other purposes is the main motivation force to invest in CSR (Buchholtz et al, 1999; Fauzi et al, 2009).

H1: *There is a positive relationship between the company's free cash flow and its level of corporate social responsibility.*

Undoubtedly there is a high possibility for the occurrence of persistent conflict between managerial undertakings and stockholders' interests especially when it comes to such philanthropic actions as corporate social responsibility (Berle & Means 1932; Jensen & Meckling 1976).

Free cash flow can be referred to as an extra cash flow above the required amount needed to fund all projects with positive net present values discounted at the appropriate cost of capital. Thus, in case when organization accumulates substantial cash flow the disagreement of interests between stockholders and managers appear to be especially sensitive (Lehn & Poulsen 1988).

A study by Barnea et al (2005) shows the agency conflict between the shareholders and managers when investing in CSR. The authors state that managers are willing to over-invest in social activities as it benefits their own reputation. A high level of CSR benefits the company; at the same time it benefits the CEO even more describing the management as philanthropic individuals who take care of the society, employees and the working environment. Every penny managers are spending on CSR investments decreases the shareholders' wealth.

A study by Jensen (1986) mentions that managers of companies with free cash flow tend to catch into unprofitable investment in order to escape payouts to stakeholders. In other words a free cash flow situation in a company spurs management to waste that financial layer throughout organization quite inefficiently which eventually leads to conflict between management and shareholders (Smith & Kim 1994).

Accordingly Jensen (1986) suggests that if the company has a substantial level of free cash flow it is easier for managers to get personal benefits (i.e. consume perks). The reason is that they will be asked fewer questions from the shareholder and board members. Another study (Arora et al 2011) supports the idea suggesting that when the company is in a stable financial situation, there is less control from the independent directors and concentrated owners. They are more willing to trust their managers and thus give more freedom of actions. In turn, the management acts from the position of strength and has stronger governance conditions.

Debt servicing obligations may play a role of conflict-mitigating factor: obligations will discourage the managers from over-investment in CSR (Barnea et al 2005). Firms with high leverage will pay more attention on the actions of the managers from the side of its independent directors or concentrated owners. Moreover, its banks and debt holders can play a role of controlling institutions as well: although they cannot have a direct impact on the management, they consistently monitor the company's financial policy and thus have an ability to influence decisions when the company needs additional funds. We expect that in spite of the free cash flow a company has in excess of its needs the firm leverage will play a moderating role in the relationship between FCF and CSR.

H2*: Firm Leverage will negatively moderate the relation between FCF and CSR.*

3. Data and Sample Selection

Dependent Variable

- Corporate Social Responsibility

The sample data was gathered from a variety of sources. The first is a unique database obtained from Asset4 Universe Thompson Reuters Database. It provides data on the company's social performance score along the following dimensions: employment quality, health & safety, training & development, diversity, human rights, community (donations) and product responsibility.

Thompson Reuters describes its database in the following way: "The social pillar measures a company's capacity to generate trust and loyalty with its workforce, customers and society, through its use of best management practices. It is a reflection of the company's reputation and the health of its license to operate, which are key factors in determining its ability to generate long term shareholder value".

Independent Variable

- Free Cash Flow

FCF provides a measure of the resources generated from the operations in the previous period which the firm can either use to fund new investments including social ones or pay out to shareholders. Free cash flow is used as a proxy of agency cost of free cash flow and it is also the independent variable of the study. The data for FCF is collected from Worldscope database.

Moderating Variable

- Firm Leverage

The monitoring ability of debt holders and availability of cash flow are captured by firms' leverage. Leverage is defined as long-term debt divided by the total book value of assets (Barnea 2005).

Control Variables

The control variables included in the study are the company's size, industry, financial performance and growth opportunities. These variables have been defined as associated with the level of CSR in the previous studies.

- Firm Size

Firm size is most commonly measured as the natural log of total sales or total assets in the previous studies on CSR (McGuire et al, 2003; Deckop et al, 2006; Manner, 2010). In this study, following the research by Seifert et al (2004), the natural log of total assets is used as a proxy for the firm size.

- Industry Dummy

Industry dummy has been used to control for the industry effect. The dummy variables help to investigate whether companies of different industries have different levels of social responsibility. For example, the companies from oil & gas and IT industry need to put different amount of efforts in order to have a high level of CSR. IT companies do not make as much pollution compared to oil & gas companies and thus require less efforts to obtain a high level of social responsibility. Moreover, different firms might face different types of institutional pressure on CSR investments, for instance, companies making pollution will be pushed more to invest in CSR compared to environmentally friendly ones.

- Financial Performance

Prior researches show that firms with better financial performance are more likely to have more slack resources. When having an access to slack resources, companies will be more willing and have more opportunities to invest in social activities in spite of the fact that it might be costly for a company (Chiu and Sharfman, 2011). This hypothesis is consistent with the study by Waddock and Graves (1997) that shows firms will be more likely to invest in CSR when the returns they generate are retained as slack resources. In this study return on assets (ROA) is

used as a proxy for the company's financial performance. The data for ROA was obtained from the Worldscope database.

- Growth opportunities

Consistent with the previous studies, the firm's level of CSR can be affected by its capacity; the assets in place and growth opportunities have been controlled in the analysis (Myers and Majluf, 1984; Smith and Watts, 1992). Followed by Barnea et al (2005), the growth opportunities using the market to book ratio (the market value of assets divided by the book value of assets) has also been controlled in the present study.

4. Method

The goal of the study is to determine whether FCF has an impact on the company's level of social responsibility. The regression equations use panel data consisting of both time-series and cross-sectional observations. Panel data provides a large number of data points, helps to reduce the collinearity and improves the efficiency of the calculations (Hsiao, 2003). Moreover, panel data helps to analyze the change in dynamics and allows measuring the effects that cannot be observed in cross-sectional or time-series data only (Gujarati, 2003).

The analysis is conducted through the Generalized Least Squares (GLS) regression, which is a more appropriate technique for estimating the unknown parameters compared to panel data analysis (Saleh, 2011). The GLS regression is applied when there is a correlation between the observations or in case of heteroscedasticity. The random effects model (RE) is applied in the study. The RE model is used when some omitted variables may be constant over time but vary between cases, and others may be fixed between cases but vary over time.

The following formula represents the model:

$\gamma_{it} = x_{it}\beta + v_i + e_i + v_{it}$ (1), where

y represents the dependent variable (CSR); β stands for the coefficient of the IV; x is the independent variable (FCF) and all the control variables (firm size, industry, financial performance, growth opportunities); v - the unobserved firm effect; e_i represents the cross-section error component; v_{it}, combines the cross-section and time series error component; i is a firm number and t is time.

A 1-year lag between FCF and CSR is implied in the study; the logic is that the increase of the availability of the company's needs is the motivation force to increase the company's level of CSR the following year. In other words, FCF will subsequently affect the level of social responsibility of the company.

5. Results

Descriptive Statistics

A total of 1628 companies are presented in the sample. Table 1 shows the means, standard deviations and correlations of variables for the years 200-2010. The table shows a positive correlation between FCF and the company's level of social responsibility. It is interesting that assets are negatively correlated with the CSR, whereas firm leverage displays a positive direction. However, this is not indicative since other controlling variables are not taken into consideration.

< Table 1> Descriptive statistics and correlation

		Mean	S.D.	1	2	3	4	5	6
1	CSR	4.106	0.518	1					
2	Basic Materials (Industry)	0.079	0.269	-0.013	1				
3	Consumer Goods (Industry)	0.142	0.349	0.025	-0.119	1			
4	Consumer Services (Industry)	0.136	0.343	0.052	-0.116	-0.162	1		
5	Financials (Industry)	0.15	0.358	-0.08	-0.123	-0.171	-0.167	1	
6	Health Care (Industry)	0.096	0.294	0.009	-0.095	-0.132	-0.129	-0.137	1
7	Industrials (Industry)	0.143	0.35	0.014	-0.119	-0.166	-0.162	-0.172	-0.133
8	Oil & Gas (Industry)	0.063	0.242	0.013	-0.076	-0.105	-0.103	-0.109	-0.084
9	Technology (Industry)	0.077	0.267	0.029	-0.085	-0.118	-0.115	-0.122	-0.094
10	Telecommunications (Industry)	0.012	0.11	-0.025	-0.033	-0.045	-0.044	-0.047	-0.036
11	Assets	7.219	0.616	-0.114	-0.142	-0.181	-0.065	0.392	-0.043
12	Financial Performance	6.863	7.319	0.037	0.043	0.115	-0.02	-0.234	0.112
13	Growth Opportunities	0.003	0.014	0.011	0.008	0.006	0.001	-0.024	0.013
14	Firm Leverage	1.226	8.101	0.001	-0.004	-0.006	-0.005	-0.018	-0.019
15	Free Cash Flow	14.056	1.321	0.35	-0.03	0.019	0.035	-0.01	0.019

< Table 1> Descriptive statistics and correlation (Continued)

	Variable	7	8	9	10	11	12	13	14	15
1	CSR									
2	Basic Materials (Industry)									
3	Consumer Goods (Industry)									
4	Consumer Services (Industry)									
5	Financials (Industry)									
6	Health Care (Industry)									
7	Industrials (Industry)	1								
8	Oil & Gas (Industry)	-0.105	1							
9	Technology (Industry)	-0.118	-0.075	1						
10	Telecommunications (Industry)	-0.045	-0.029	-0.032	1					
11	Assets	-0.095	0.055	-0.054	0.12	1				
12	Financial Performance	0.07	0.078	0.04	-0.111	-0.222	1			
13	Growth Opportunities	0.008	-0.017	0.052	-0.011	-0.064	0.156	1		
14	Firm Leverage	0.013	-0.016	0.077	-0.006	-0.029	-0.059	-0.001	1	
15	Free Cash Flow	-0.058	0.023	0.042	0.002	-0.013	-0.006	0.024	-0.015	1

The diagnostic of variance inflation factor (VIF) was implemented to check for multicollinearity, the results are below the threshold.

Table 2 shows the results for analysis of the effect of the FCF on the company's level of social responsibility. Model 1 includes the control variables, Model 2 includes the independent variables and Model 3 includes the interaction effect. The results show that FCF has a significant impact on the level of CSR ($p < 0.001$). In other words, the availability of free funds beyond the company's needs leads to better CSR. Model 2 provides support for hypothesis 1. Model 3 shows that the interaction of FCF and firm leverage is significant, therefore hypothesis 2 is supported.

<Table 2> Regression results

Variables	Model 1	Model 2	Model 3
Basic Materials (Industry)	-0.013	-0.008	-0.011
	(0.040)	(0.040)	(0.040)
Consumer Goods (Industry)	-0.029	-0.028	-0.027
	(0.035)	(0.035)	(0.035)
Consumer Services (Industry)	-0.009	-0.007	-0.008
	(0.034)	(0.034)	(0.034)
Financials (Industry)	-0.065+	-0.063+	-0.063+
	(0.034)	(0.034)	(0.034)
Health Care (Industry)	-0.020	-0.019	-0.020
	(0.038)	(0.038)	(0.038)
Industrials (Industry)	-0.022	-0.017	-0.018
	(0.035)	(0.035)	(0.035)
Oil & Gas (Industry)	0.018	0.020	0.020
	(0.043)	(0.043)	(0.043)
Technology (Industry)	-0.011	-0.005	-0.007
	(0.040)	(0.040)	(0.040)
Telecommunications (Industry)	-0.039	-0.053	-0.042
	(0.079)	(0.079)	(0.079)
Assets	-0.141***	-0.125***	-0.126***
	(0.015)	(0.015)	(0.015)
Financial Performance	-0.000	-0.000	-0.000
	(0.001)	(0.001)	(0.001)
Growth Opportunities	-0.042	-0.076	-0.083
	(0.635)	(0.636)	(0.636)
Firm Leverage	0.001	0.001	0.003+
	(0.001)	(0.001)	(0.001)
Free Cash Flow		0.085***	0.094***
		(0.013)	(0.013)
FCF * Firm Leverage			-0.000*
			(0.000)

Variables	Model 1	Model 2	Model 3
_cons	5.112***	3.814***	3.695***
	(0.115)	(0.224)	(0.231)
N	1628	1628	1628
df_m	13.000	14.000	15.000
chi2	141.442	182.252	187.041

6. Discussion and Conclusion

The study investigates the effects of the availability of free cash flow along with firm leverage on company's level of social performance. The results show free cash of the company not allocated for other purposes is a motivational force to invest in CSR and is consistent with the theoretical expectation as discussed earlier.

The second result indicated that firm leverage negatively moderates the relationship between free cash flow and social performance. This is consistent with the prior literature indicating a negative correlation between leverage and level of CSR. The paper shows that overinvestment in CSR can be mitigated by controlling for the company's free cash flow and its obligations.

The study offers several conceptual advances: (a) implementing a more precise measure of slack resources (free cash flow), (b) contributing in this line of research by providing empirical evidence on the importance of the capital structure and its role in mitigating the CSR-conflict, (c) Implementing of the Asset4 Universe Thompson Reuters Index for the evaluation of CSR level.

Limitations and Further Research

The paper has a number of limitations. First, the study investigates the effects of free cash flow and firm leverage on firm's social performance in one country (USA). However, a particular institutional context cannot be applied to other countries due to different characteristics of each country. Secondly, the study considers only six years of evaluation. Future research in this area should extend the number of periods of observation. The free cash flow is the only variable describing the availability of the company's funds. Implication of other measurements can solve this problem in the future research. Another avenue for a future research could be posting timing in the relationship. The longitudinal examination on how free cash flow impacts firm's social performance across time would be valuable.

7. References

Agrawal A., Knoeber C. (1996). “Firm performance and mechanisms to control agency problems between managers and shareholders.” The Journal of Financial and Quantitative Analysis, 31 (3): 377-397.

Arora, P. and R. Dharwadkar (2011). "Corporate governance and corporate social responsibility (CSR): the moderating roles of attainment discrepancy and organization slack." Corporate Governance: An International Review, 19(2): 136-152.

Aupperle, K. E., A. B. Carroll, and J. D. Hatfield (1985). “An empirical examination of the relationship between corporate social responsibility and profitability.” Academy of Management Journal, 28 (2): 446-463.

Barnea A., Rubin A. (2010). “Corporate Social Responsibility as a Conflict Between Shareholders.” Journal of Business Ethics, 97 (1): 71-86.

Bartkus B.R., Morris S.A., Seifert B. (2002). “Governance and Corporate Philanthropy: Restraining Robin Hood?” Business Society, 41 (3): 319-344.

Berle, Adolf and Gardiner Means (1932). “The Modern Corporation and Private Property.” Macmillan, New York).

Boyle, E. J., et al. (1997). "Stock market reaction to ethical initiatives of defense contractors: Theory and evidence." Critical Perspectives on Accounting 8(6): 541-561.

Brammer S., Brooks C., Pavelin S. (2006). Corporate Social Performance and Stock Return: UK Evidence from Disaggregate Measures.” Financial Management, 35 (3): 97-116.

Buchholtz A.K., Amason A.C., Rutherford M.A. (1999). “Beyond Resources: The Mediating Effect of Top Management Discretion and Values on Corporate Philanthropy.” Business & Society, 38(2) 167-187.

Carroll, A. B. (1991). "The pyramid of corporate social responsibility: toward the moral

management of organizational stakeholders." Business horizons 34(4): 39-48.

Chiu, S. C. and M. Sharfman (2011). "Legitimacy, visibility, and the antecedents of corporate social performance: An investigation of the instrumental perspective." Journal of Management 37(6): 1558-1585.

Cochran P.L., Wood R. A. (1984). “Corporate Social Responsibility and Financial Performance.” The Academy of Management Journal, 27 (1): 42-56.

Davis, K. (1973). "The Case for and Against Business Assumption of Social Responsibilities." Academy of Management Journal 16(2): 312-322.

Fauzi H., Idris K.M. (2012). “The Relationship of CSR and Financial Performance: New Evidence From Indonesian Companies.” Issues in Social and Environmental Accounting, 3(1).

Friedman, M. (1970). “The social responsibility of business is to increase its profits.” New York Times Magazine, September 13: 32-33, 122, 124, 126.

Garriga E., Mele D. (2004). “Corporate Social Responsibility Theories: Mapping the Territory.” Journal of Business Ethics, 53: 51-71.

Gillan, S. L. and L. T. Starks (2000). "Corporate governance proposals and shareholder activism: The role of institutional investors." Journal of financial Economics 57(2): 275-305.

Gujarati, Damodar. (2003). “Basic econometrics." New York: MeGraw-Hill: 363-369.

Hart, S. L. (1995). "A natural-resource-based view of the firm." Academy of management review: 986-1014.

Hill R.P., Ainscough T., Shank T. and Manullang D. (2007). “Corporate Social Responsibility and Socially Responsible Investing: A Global Perspective.” Journal of Business Ethics, 70 (2): 165-174.

Hillman, A. J. and T. Dalziel (2003). "Boards of directors and firm performance: Integrating agency and resource dependence perspectives." The Academy of Management

Review: 383-396.

Hsiao C. (2003) “Analysis of Panel Data. Second edition.” Cambridge University Press.

Jensen, Michael and William H. Meckling (1976). “Theory of the firm, managerial behavior, agency costs, and ownership structure.” Journal of Financial Economics, 3: 305-360.

Jensen, Michael (1986). “Agency costs of free cash flow, corporate finance and takeovers.” American Economic Review, 76: 323-339.

Khan A., Kaleem A., Nazir M., Knan K. (2012). “Voluntarily contribution and agency cost of free cash flow: evidence from manufacturing sector of Pakistan.” Journal of Basic and Applied Scientific Research, 2 (7): 6882-6888.

Lantos G.P. (2001). “The boundaries of strategic corporate social responsibility.” Journal of Consumer Marketing, 18 (7): 595-630.

Lee S. (2011). “How financial slack affects firm financial performance: evidence from US industrial firms.” Journal of Economic Research, 16: 1-27.

Lehn, K., & Poulsen, A. B. (1987). “Leveraged buyouts: Wealth created or wealth redistributed.” Center for the Study of American Business, Washington University.

Lehn K., Poulsen A. (1989). “ Free cash flow and stockholder gains in going private transactions.” The Journal of Finance, 44 (3): 771-787.

Mallin, C. A. and G. Michelon (2011). "Board reputation attributes and corporate social performance: an empirical investigation of the US Best Corporate Citizens." Accounting and Business Research 41(2): 119-144.

Margolis, J. D. and J. P. Walsh (2001). “People and profits?: The search for a link between a company's social and financial performance.” Lawrence Erlbaum.

Margolis J.D., Elfenbein H.A., Walsh J.P. (2009) “Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate social responsibility and financial performance.” Working papers series.

McGuire J. B., A. Sundgren, and T. Schneeweis (1988). “Corporate social responsibility and firm financial performance.” Academy of Management Journal, 31 (4): 854- 872.

McGuire, Dow S., Argheyd K. (2003). “CEO incentives and corporate social performance.” Journal of Business Ethics, 45: 341–359.

McWilliams A., and D. Siegel (2000). “Corporate social responsibility and financial performance: Correlation or misspecification?” Strategic Management Journal, 21 (5): 603-609.

McWilliams A., Siegel D., Wright P. (2006). “Corporate social responsibility: strategic implications.” Journal of Management Studies, 43: 1-18.

Moore, G. (2001). "Corporate social and financial performance: an investigation in the UK supermarket industry." Journal of business ethics 34(3): 299-315.

Moskowitz, M. (1972). “Choosing socially responsible stocks.” Business and Society Review, 1: 71-75.

Moussavi, F., & Evans, D. (1986). “An attributional approach to measuring corporate social performance.” Academy of Management meetings.

Myers S.C., Majluf N.S. (1984). “Corporate financing and investment decisions when firms have information that investors do not have.” Journal of Financial Economics 13: 187-221.

Näslund B. (1964). Organizational Slack. The Scandinavian Journal of Economics, 66 (1): 26-31.

Orlitzky, M., et al. (2003). "Corporate social and financial performance: A meta-analysis." Organization studies 24(3): 403-441.

Pava, M. L. and J. Krausz (1996). "The association between corporate social-

responsibility and financial performance: The paradox of social cost." Journal of business ethics 15(3): 321-357.

Ramasamy, B. and M. Yeung (2009). "Chinese consumers' perception of corporate social responsibility (CSR)." Journal of business ethics 88: 119-132.

Quinn, J., Mintzberg, H., & James, R. (1987). The strategy process. Englewood Cliffs, N.J.: Prentice-Hall.

Saleh M. (2011). "Impact of CSR on Financial Performance and Institutional Ownership: Evidence from PLC's in Malaysia." Lambert Academic Publishing.

Schwartz M.S., Carroll A.B. (2003). "Corporate Social Responsibility: A Three-Domain Approach." Business Ethics Quarterly, 13 (4): 503-530.

Seifert B., Morris S.A., Bartkus B.R. (2004). "Having, Giving, and Getting: Slack Resources, Corporate Philanthropy, and Firm Financial Performance." Business Society, 43 (2): 135-161.

Seifert B., Morris S.A., Bartkus B.R. (2004). "Comparing Big Givers and Small Givers: Financial Correlates of Corporate Philanthropy." Journal of Business Ethics, 45 (3): 195-211.

Simpson, W. G. and T. Kohers (2002). "The link between corporate social and financial performance: evidence from the banking industry." Journal of Business Ethics 35(2): 97-109.

Smith N.C. (2003). "Corporate Social Responsibility: whether or how?" California Management Review, 45 (4).

Smith N.C. (2003). "Corporate Social Responsibility: not whether, but how?" Centre for Marketing Working Paper, 03-701.

Smith R.L., Kim T. (1994). "The combined effects of free cash flow and financial slack on bidder and target stock returns." The Journal of Business, 67 (2): 281-310.

Smith C.W., Watts R.L. (1992). "The investment opportunity set and corporate financing, dividend, and compensation policies." Journal of financial Economics 32: 263-292.

Robert C. Solomon. (1997). It is Good Business. Rowman & Littlefield Pub Incorporated.

Spicer, B. H. (1978). “Investors, corporate social performance, and information disclosure: An empirical study.” Accounting Review, 53: 94-111.

Tan J., Peng M. W. (2003). “Organizational slack and firm performance during economic transactions: two studies from an emerging economy.” Strategic Management Journal, 24: 1249-1263.

Turban, D. B., and D. W. Greening (1997) “Corporate social performance and organizational attractiveness to prospective employees.” Academy of Management Journal, 40 (3): 658-672.

Ullmann, A. (1985). “Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance.” Academy of Management Review, 10: 540-577.

Vance, S. (1975). “Are socially responsible firms good investment risks?” Management Review, 64: 18-24.

Waddock, S. A., and Samuel B. Graves (1997). “The corporate social performance – financial performance link.” Strategic Management Journal, 18 (4): 303-319.

Windsor D. (2006). “Corporate Social Responsibility: Three Key Approaches”. Journal of Management Studies, 43 (1): 93-114

Wood D.T. (1991). “Corporate Social Performance Revisited.” The Academy of Management Review, 16 (4): 691-718