

The link between corporate social responsibility and financial performance in Taiwan: A non-linear approach

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ABSTRACT

This paper examines the relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) of 286 Taiwan-listed firms during the period 2012-2017. I use Bloomberg's Environmental, Social and Governance (ESG) Disclosure score to proxy CSP. The CFP is measured by two accounting-based measures, namely, Return on Assets (ROA), Return on Equity (ROE), and a market-based measure as annual stock returns (Stock Returns). Results suggest that CSP influences on ROE and ROA in an inverted U-shaped pattern, supporting that the strategic CSR motive satisfies the profit maximization assumption; better current ROE (Stock Returns) will lead to subsequent CSP improvement in a positive quadratic (inverted U-shape) pattern, thus supporting the slack resources theory. To sum up, there is a quadratic bidirectional relationship between CSP and ROE of Taiwan-listed firms.

Further, disentangling Bloomberg's ESG Disclosure score to proxy environmental, social, and governance performance, which shows that the direct effect of environmental (social) performance on accounting-based measures of CFP is increasing (decreasing) return to scale. Hence, the Environmental Corporate Social Responsibility (ECSR) investment by TWSE listed firms benefits CFP should be encouraged in cases where the indirect influence of environmental performance on ROE and ROA through governance performance is manageable, supporting Natural-resource-based View of the firm (NRBV).

Keywords:

Corporate social responsibility, Corporate financial performance, ESG Disclosure score, Slack resources theory, Natural-resource-based view of the firm (NRBV).