The conceptual framework model for the adoption of governance of CSR and financial performance

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Abstract

Purpose: This paper proposes to synthesize the relevant and empirical literature on Corporate Social Responsibility (CSR) adoption, within the context of the corporate governance and other factors which influence the adoption. This paper focuses on the role of the diversity of the board of directors within a CSR and governance systems through a research framework. The paper also examines that role of top management team, which helps in the implementation of a socially responsible business. This leads to improved corporate financial performance, which then increases the adoption of corporate social responsibility within the organization.

Design/ Methodology: This paper uses stakeholder theory to present cannon for examination of a number of research propositions presented in the paper. This helps to identify a future research agenda within this area.

Findings: A number of research propositions and research agenda are presented on the potential adoption of CSR literature, and the association it may have with the corporate financial performance.

Originality/value: As the extant literature does not provide a canon of CSR adoption, the paper's originality is its argument that a positive association between adoption of CSR and financial performance could serve as an approach to assess adoption of CSR. Furthermore, the use of stakeholder theory provides additional insights into identifying the adoption of CSR and its link with the financial performance issues.

Introduction

Corporate social responsibility (CSR) is increasingly important for organization to develop their business strategies and their financial performance in the long run (Angus-Leppan et al., 2010, Jamali and Mirshak, 2007, Waldman et al., 2006b, Werther and Chandler, 2010), yet is an underdeveloped area of research. Organization have actively tried in the past to focus their interest on the profitability of the business organization, while ignoring the needs of the society and other stakeholders in the organizational setup (Freeman, 1984, Sen et al., 2006). This lack of focus on the social responsibility of the organization however started to change in the last twenty years where the research agenda has moved towards the corporate social responsibilities (Aguilera et al., 2006, Angus-Leppan et al., 2010). However, it is increasingly clear that the link between the financial performance of the organization, and the CSR adoption also needs to be clearly established, with a research agenda being set which dissects the factors which can develop this link.

This research sets out to establish this link between the corporate social responsibility of the organization with the financial performance of the organization. A literature review is conducted which establishes a number of links between the two issues. Firstly, we established that the diversity of the board of directors has a critical link to the socially responsible organization. (Arora and Dharwadkar, 2011). The positive contributions of the directors working in an organization is critical, as they are the ultimate decision makers, and their positive contribution towards a socially responsible organizational setup would be critical. In this regard, the different pressures which the board of directors face have also been evaluated. However, another critical factors is the presence of a corporate governance system, which is also geared towards the CSR principles, which can lead the organization in the direction of a ethical undertaking towards the different stakeholders in the organization (Spitzeck, 2009). Another link between the financial performance of a company and the CSR applicability by it is the way in which the top management team of the company is oriented towards an establishment of the CSR principles of the organization (Angus-Leppan et al., 2010). Although the nature of the top management team is critical to the success of the |CSR initiatives, this also needs to be tied into the long term strategic direction of the company. This link between the strategic direction and the CSR is also significant as top management team of an organization has different competing demands, which they need to meet. A clear strategy which guides the leaders towards a CSR positive relationship between the company and the society also enables a clear path for improved financial performance (Werther and Chandler, 2010).

This research paper has been structured in the following manner. Section two of the research paper sets out the main theoretical domain within which the research will be carried out. This includes the stakeholder theory. Section three dissects the literature into five main stands. These are the diversity of the board of directors, governance systems, business strategy and the financial performance. Each of these issues are interlinked, and examined in relation to their impact on the CSR adoption in organizations. Section five is the discussion and the research agenda, which is set in light of the literature review, which has been conducted earlier. Six different research propositions are presented, which link the factors for the adoption of CSR to improve the financial performance of the organization. These research propositions are then discussed in detail, while also focusing on the future research issues for the organizations. The final section of the research presents a number of conclusions of the research. These conclusions are the future research agenda of the research. One of the key conclusions of this research is that the role of the senior management is significant in the setting up of a socially responsible direction of the organization. However, the senior management needs to balance the conflicting demands of the CSR and the financial performance. One of the main conclusions of the research is that the strategic needs of the organizations need to be brought into line with the CSR needs of the organization, and further research is needed on this area to establish a clear empirical direction of this research. The research further suggest that the link between the governance arrangements and the financial performance needs to be further investigated for a clearer understanding of the issues involved in the adoption of CSR in organizations. One of the significant research contributions of this research articles is that it is able to link the literature between the corporate social responsibility, corporate governance and financial performance. Most of the significant literature on corporate social responsibility fails to link it to the underlying concept of profitability for the organization. However, as part of this research we link the different issues of governance with the issues of financial performance, and then link it back to issues of corporate governance for the organization. Another significant contribution of the paper is that it dissects the literature of integration of governance systems into CSR, and they ways in which organizations can use it to their advantage.

Theoretical Perspectives

Stakeholder Perspective on CSR

Within the governance structure of organizations, it is imperative to think that the stakeholder theory is critical in understanding the social entity and the affects of welfare on many people (Freeman, 1984). The importance of the stakeholder in the way that the governance structures are organization has also been observed in a positive manner. One of the significant observations of the researchers has been that the corporate governance should understand the main concerns of the stakeholder in the organization (Kuznetsov and Kuznetsova, 2010, Retolaza et al., 2009). This would mean that the participation of the stakeholders in the decision making in the organization at the strategy level should enhance efficiency and reduce the level of conflict (Spitzeck, 2009, Freeman, 1984). Organizations need to integrate the corporate concerns regarding the corporate social responsibility into the decision-making at the strategic level (Husted and Allen, 2006, Mackey et al., 2007, Perrini and Minoja, 2008). However, the alignment of the goals of the different stakeholders (Russo and Perrini, 2010) into the corporate social responsibility concerns also means that there is a risk of conflict between the organizations (Sen et al., 2006, Werther and Chandler, 2010), which in many cases means that governments need to redraw the legislative action (Spitzeck, 2009). Research suggest that the proactive companies, tend to integrate the stakeholder concerns into their decision making processes (Arenas et al., 2009, Jones and Nisbet, 2011), which also establishing the necessary governance structures (Spitzeck, 2009). This often also involves integrating the socially responsible organization, and ensuring that the a set of policies, practices and programs are integrated into the different operations of the firm, which can lead to a maximization of the positive impact on the society (Spitzeck, 2009).

Literature Review

The importance of Corporate Social Responsibility (CSR) in the organization framework has been increasingly becoming more significant for organizations (Werther and Chandler, 2010), increasingly so in a globalized and networked economies.

Diversity of Board of Directors and CSR

The corporate governance structure, which is given by the senior management in the organization, is one of the most significant aspects of the way in which organization can respond to the different types of challenges they face (Husted, 2003, Jamali et al., 2008). The role of the board of directors has become even more crucial today, as the there are new issues of globalization, loss of the trust in business organizations and the legislated and voluntary movement toward governance reform have been increasingly active (Morgan et al., 2009). Aspects of corporate citizenship have also been deemed to be highly significant for the organization, as it tried to fulfill its financial obligations and the obligations of the organization towards the society (Neal and Cochran, 2008, Van den Berghe and Louche, 2005). One of the critical component of the CSR and governance to assess the difference between the positive and the negative CSR. Literature suggest that the positive CSR is the way in which effective and efficient decision making can be used by the organization to assure the proactive sustainability practices by the organization (Arora and Dharwadkar, 2011). However, evidence does suggest that effective corporate governance should curtail the negative CSR, which is normally based on a cost benefit analysis, and is not always supportive of a positive contribution to the society (Arora and Dharwadkar, 2011).

The relationship between the CSR and the positive contributions it can make to the society are complicated. This level of complexity is dependent on the relationship between the positive economic contribution of the CSR and the nature of these benefits in the long run for the organization (Arora and Dharwadkar, 2011). Some evidence suggest that the main concern of the different institutional actors is dependent on the monitoring of the governance in organization, which seeks to lay out the foundations for proper CSR activities in an organization (Arora and Dharwadkar, 2011). The way an organization gives its board of director is a critical signal about the importance that the organization paying to it s external environment (Arora and Dharwadkar, 2011, Bondy et al., 2008). These independent board of directors could be appointed to protect the interests of the shareholders on in some cases the hiring may be brought about to increase the independence of the board of directors (Arora and Dharwadkar, 2011, Bondy et al., 2008). In such cases, the positive CSR may be the best option for organization, as they want to achieve long term sustainability and they look at the long term benefits rather than short term finance of the organization (Arora and Dharwadkar, 2011).

The pressure which board of directors face when dealing with positive CSR is significant. (Arora and Dharwadkar, 2011). Many of the institutional actors are more interested in the short term financial performance of the company, and therefore the board of directors are under pressure not to invest too heavily in the different kind of positive CSR options that may be available to them (Arora and Dharwadkar, 2011). Another critical component of the independent directors is that most of them are hired for their excellent results in terms of their financial acumen, and their interest in the socially responsible nature of their organization is not their major advantage (Arora and Dharwadkar, 2011). This means that these directors are more likely to analyze the historical financial data when making decisions, rather than the strategic nature of the future CSR investments that they may be asked to undertake (Arora and Dharwadkar, 2011, Morgan et al., 2009, Neal and Cochran, 2008). In such cases, the focus of the board of directors would be on the on short term interest of the organization rather than the long-term nature of the CSR results.

Another aspect which is significant between the relationship of the board of directors and the CSR investments is the availability of the CSR investments available in the market (Morgan et al., 2009, Neal and Cochran, 2008). In many cases, the socially responsible investments are of benefit to the organization when the demand is significant, and only they provide a positive profit for the organization (Arora and Dharwadkar, 2011). One of the critical components of the link between the financial performance of the firm and the socially responsible conduct is the inherent difficulties in the set up of the private organization. In most cases, the main reason for setting up the private firm to increase the profits for the different shareholders of the company, and in many cases CSR is seen as an added cost to the company, which should be avoided (Arora and Dharwadkar, 2011). In such circumstances, it becomes increasing difficult for the members of the boards to try to implement a long-term strategic direction based on CSR, as the future profits from the use of CSR, as a strategic approach cannot be balanced.

Integration of CSR in Governance Systems

The corporate governance boards have been increasingly diversities in US and beyond, as the integration of CSR into the governance arrangements of an organization are highlighted (Arora and Dharwadkar, 2011, Doh, 2006). The improvements in the government systems not only increases the knowledge domain of the board of directors, but also enables a better and informed decision making the senior management of an organization. (Post et al., 2011). The way in which the integration of the responsibility issues of the governance structure are critical has been highlighted by the good governance models in a number of countries (Spitzeck, 2009). Some of the key responsibilities of corporate governance are based on issues such as the stakeholder engagement, human rights and environmental suitability of the organization (Spitzeck, 2009). Governance structure of an organization also has a link with the board of an organization (Morgan et al., 2009, Neal and Cochran, 2008), as the different types of committees and top management team of the organization is arranged by the governance arrangement of the organization (Angus-Leppan et al., 2010).

The governance patterns which are an integral part of an organization also need to be taken into account by the organizational actors (Spitzeck, 2009). The top level management commitment to the corporate responsibility engagement is of significant importance for any organization (Beltratti, 2005, Bondy et al., 2008, Post et al., 2011, Spitzeck, 2009) The role of the corporate governance arrangements is to ensure that the senior management is able to set the values and standards of the company according to the needs of the shareholders, which would include the socially responsible needs of the organization (Aguilera et al., 2006). The integration of the CSR into the governance systems of organizations seems to suggest two main aspects. Firstly, that the corporate responsibility is given to the top-level committees, which is composed of the stakeholders. These stakeholders can then be integrated and embedded into the business practices of the organization (Spitzeck, 2009, Fassin and Van Rossem, 2009, Harjoto and Jo, 2011, Sun and Yang, 2008). Another strategy would be to compose the corporate responsible committees, which are formed by the use of external agents and representatives of the stakeholders. Such integration of the business could be facilitated by the steering group and a CSR leadership panel. This would also also facilitate the CSR sponsors and management team to ensure that a proper CSR strategy is followed (Spitzeck, 2009, Lim and Phillips, 2008, Scherer and Palazzo, 2011, Young and Thyil, 2009). Such active methods could be one of the key methods of ensuring the integration of the senior management with the CSR objectives can be developed over time as part of the governance arrangement of the organization

Top Management Team and CSR

From a leadership point of view, the different organization have to examine the different institutional drivers which are present on the political, financial education and cultural systems (Angus-Leppan et al., 2010). The traditional differences between the two opposing forms of CSR are based on an explicit and implicit nature of the activities, which are then based on top management team of a company (Angus-Leppan et al., 2010) Although many researchers call CSR as an ambiguous tem (Angus-Leppan et al., 2010), as it is used interchangeable with corporate responsibility and corporate sustainability, however the issues have been similar (Groves and LaRocca, 2011, Lakshman, 2009, Pearce and Manz, 2011). The concerns of CSR are based on three main principle of people, planet and profit, however the implementation is still a unknown for managers (Angus-Leppan et al., 2010, Blowfield, 2005). One way of examining the role of the top management team in the CSR responsibilities of an organization is through the use of explicit and implicit nature of the activities of the leaders in organizations (Benn et al., 2010, Lindorff and Peck, 2010, Torres-Baumgarten and Yucetepe, 2009). The sense making on the part of the leaders in an organization is also critical to the ways in which the leaders are able to influence the process of decision making in the CSR (London, 2008, Morgan et al., 2009).

Largely the empirical studies have ignore the place of corporate leader in implementing the CSR practices (Angus-Leppan et al., 2010, Waldman et al., 2006a, Waldman et al., 2006b). The position of top management in the influence of the different types of strategies and the project has been well established, however the effects of the values, ethics of the manger have largely been ignored in the literature on CSR (Angus-Leppan et al., 2010, Groves and LaRocca, 2011, Lakshman, 2009). Some of the researchers have argued that the most appropriate top management team to implement the CSR is to ensure that the managers take a strategic approach, which is not linked to maintaining an integrity to the personal values of the leader (Waldman et al., 2006a). However, this strategic led approach has not been linked to any empirical evidence. On the other hand, some of the researchers are of the view that a personal led approach, which take into account the different drivers for CSR based on personal preference and moral can also be justified (Angus-Leppan et al., 2010). The discussion in the literature on the ethical and the moral dimensions of top management team will help us in informing on the nature of the CSR in organizations today (Angus-Leppan et al., 2010).

Therefore, the link between the business strategy of a firm and the way they use CSR has also been investigated by the literature in detail (Heslin and Ochoa, 2008, Husted and Allen, 2006, Husted and Allen, 2007, Mackey et al., 2007, McWilliams and Siegel, 2002). However, one of the key problem which managers face has been the way in which they can build CSR into the business strategy of the firm (Reinhardt and Stavins, 2010). Some of the reports suggest that many of the organization still do not have a long term strategy to deal with CSR, and many of the decisions are taken by local managers when an opportunity is seen by them (Galbreath, 2010, Kreng and Huang, 2011, Lee, 2011). The role of the senior managers is to ensure that the organization has a long term strategic direction, and can incorporate CSR as part of this regime (Galbreath, 2010). The process of building the CSR into the strategy of the firm can be highly tricky for the managers, as the focus of these managers is on profit maximization, and not on CSR (Galbreath, 2010). The strategy of the firm is the base of the company, which is a foundation for the creation of the company and the competitiveness of the organization (Becker-Olsen et al., 2011, Bornhofen et al., 2011, McWilliams and Siegel, 2011).

One of the key components of the organization is the mission of the organization, which is a declaration of the purpose of the company and its beliefs (Orlitzky et al., 2011, Ramachandran, 2011, Wei et al., 2011). Ensuring that the long term strategy of the company and its mission is the indication to the different stakeholders about the intent of the firm, a CST strategy based reaction could ensure that the right message comes across to everyone (Galbreath, 2010). The right balance between the mission of the company and the CSR is not always easy, and is a tricky proposition for managers (Galbreath, 2010). Another critical component of the CSR strategy is to understand the environment of the organization (Reinhardt and Stavins, 2010, Romero, 2010), and ensure that the organizational actors are able to implement the long term strategies of the senior management (Kim, 2011, Kreng and Huang, 2011). Another issues which is significantly important for the organization from strategic point of view is that the strategic addressing of the market is also highly important, as it would enable the organization to offer the products and service to a specific market. The role of the market services is to ensure that the CSR strategic relationship between the customer and the different market components are clearly understood (Galbreath, 2010, Wei et al., 2011, Willers and Kulik, 2011).

Another way the strategic direction of the company is linked to CSR is by understanding the customer needs (Galbreath, 2010, Husted and Allen, 2006, Husted and Allen, 2007). Strategic direction as a corporate direction needs to ensure that the market orientation and the level of innovation that the company is delivering are according to the level of CSR that the customers demand (Galbreath, 2010, McWilliams and Siegel, 2002). This will ensure that a equilibrium between the needs of the customer and the needs of the organization to deliver profitability for its share holders is delivered, and that the focus of managers is not overtly towards one component only (Galbreath, 2010, McWilliams and Siegel, 2002). A critical component of any strategic direction is to ensure that the competitive advantage for the company is ensured at all cost, which would enable the company to deliver the level of competitive advantage through the use of innovation for the CS related aspects of the company's output (Sharp and Zaidman, 2010, Shea, 2010). Companies need to position themselves, and use their resources in an effective manner for any significant competitive advantage (Galbreath, 2010, McWilliams and Siegel, 2002).The unmet social needs of the consumers is one way that companies can position themselves in the market, and create a sustained long term strategy to incorporate the CSR into the organizational direction (Galbreath, 2010, Siegel and Vitaliano, 2007). The implications of this business strategy for the organization are significant (Barba-Sanchez and Atienza-Sahuquillo, 2010, Shea, 2010, van der Heijden et al., 2010). One of the underlying issues which the managers deal with is to ensure that any strategy which is undertaken by them needs to be about the success of the organization (Galbreath, 2010, Siegel and Vitaliano, 2007). However, the link between the CSR and the long term performance of the company has not been clearly established in the literature (Cox and Schneider, 2010, Galbreath, 2010). The unmet social needs and responsibilities of the firm need to be met, but the way in which senior executives can use the strategic direction of the organization is also not clear (Galbreath, 2010, Siegel and Vitaliano, 2007).

Financial Performance and CSR

The performance of any company is one of the significant measure by which the success or the failure of the company is judged (McWilliams and Siegel, 2000, Neal and Cochran, 2008). The positive financial performance of the organization is seen as one of the benchmark for the company to succeed, and in hardly any case the right to have CSR can be put before the right to make a significant profit for the share holder (Peloza, 2006, Scholtens, 2008). The financial performance of the firm. Balance between the financial performance of the company and significant corporate social responsibility has been highlighted in U S with the demise of Enron, where one of the reaction to the problems at the company was the passing of the Sarbanes Oxley Act, which required legislative action to improve the corporate governance in companies in the US (Karaibrahimoglu, 2010).

One of the key benchmark for financial performance is to ensure that the organization is able to use a strategic direction to seek both profits while also fulfilling their corporate social responsibilities (Neal and Cochran, 2008). This issue, however when put in practice can be highly tricky, as the focus of the financial managers is almost always on the financial gains of the company. In such cases, the socially responsible nature of the financial institutions and managers can be questioned (Neal and Cochran, 2008). This has led to the need for the governments to bring in new legislation, which seeks to ensure that the needs of all the stakeholders are met with fairness, rather than the focus being only on the needs of the shareholders of the company (Neal and Cochran, 2008, Peloza, 2006, Scholtens, 2006). Another aspect of the financial performance is the need to balance the financial model for the organization with the social needs of the society. Some of the commentators have questioned the intentions of the senior managers, and the need for government led regulation to curtail the greed of the capitalist society (Neal and Cochran, 2008, Inoue and Lee, 2011, Jones and Nisbet, 2011). However, the empirical evidence suggests that corporate governance matters, and the markets pay for good corporate governance, which in turn is integral for the corporate social responsibility (Neal and Cochran, 2008, Karaibrahimoglu, 2010, Yang et al., 2010).

Discussion and Research Agenda

The review of the literature has highlighted a number of strategic issues relating to the adoption of CSR in organization, and its links to financial performance and governance of the organization. This section proposes a number of research propositions, which are analyzed in relation to the literature in the academic arena, and proposes these as a future research agenda. Significant gaps in the literature have been identified as part of the literature review. One of the issues which has been identified is the lack of link between the board of directors (corporate governance) and the CSR in the company,. Secondly, another significant literature is the lack of research on the Top management team and its link with CSR in organizations. Another limitation of the research is that the link between the financial strategy and the CSR has also not been clearly established. These pro positions have been suggested with a view of developing these as future research direction for the researcher and the academics. These research propositions are as follows.

Proposition 1*: The diversity of the board of directors has a positive influence on integration of corporate social responsibility in governance systems*

This research suggests that the diversity of the board of directors is one of the most critical components within the corporate governance structures of an organization. This assumption is based on valid empirical evidence from the evaluated literature, which suggest that the nature and type of board of directors has a direct influence on the nature of the corporate social responsibility. In cases where the boards of directors are aware about the different types of needs that the society has, the boards of directors are able to guide the organization into a positive CSR. In cases where the board of directors sees CSR as an unwanted responsibility, the organization is more liable to engage in negative CSR, which only uses the CSR as a propaganda tool for the organization (Post et al., 2011), rather than trying to deliver real world benefits to the wider society. The nature of the corporate governance is also highly influenced by the makeup of the board of directors.

The type of corporate governance which organizations use is also significantly important for the adoption of CSR as a an organizational strategy, enabling long term advantages for the company rather than only short term tactical implementation of CSR into the organizational fabric. Another important aspect of the board of directors is their ability to face the pressure. In many cases, the different actors of the organization put severe pressure on the board of directors to act in a particular way, which can serve the vested interests of these groups. The share-holders are, in most cases looking for profit maximization. However the wider society would want a positive contribution from the different actors in the organization, which would ensure that conflicts of interest in the organization are significant (Ellis and Bastin, 2011, Hung, 2011).

Proposition 2*: The integration of CSR into governance systems has positive influence top management team.*

Another significant research proposition of this research is that the corporate governance has a significant impact on the way CSR is implemented in the organization. Corporate governance,. In many cases is the guiding force for the organization on the different types of corporate decisions that the senior managers take. The responsibility of having a positive corporate governance code, which can guide the senior management towards a positive CSR is critically important (Beltratti, 2005, Doh, 2006, Fassin and Van Rossem, 2009). The top level led corporate governance of a company would have a number of advantages. Firstly, the share-holders are part of the decision making apparatus which is able to see that the CSR is fully implemented by the company. Another critical component of the CSR and corporate governance is to ensure that eth balance between the needs of the shareholder and the wider society is met, and no one segment is able implement a strategy which ignores the other component (Judge and Piccolo, 2004, Lakshman, 2009, Lehmann et al., 2010).

Another significant issue with regards to the corporate governance in organizations is that the top level management of the organizations needs to ensure that the corporate governance is stable (Husted et al., 2010, Neal and Cochran, 2008, Sun and Yang, 2008), and can facilitate the corporate social responsibilities of the organization according to the needs of the society. The level of integration of the CSR into the governance systems can also be a key measure for the success of CSR as a main domain of the organization, which is followed as a philosophical approach by the organization. By integrating the CSR into corporate governance, the managers can ensure that the in the long term, a CSR strategy can be devised which is missing from many of the top companies in the Western World (Lim and Phillips, 2008, Van den Berghe and Louche, 2005, Young and Thyil, 2009).

Proposition 3: *Top management team has a positive influence on the integration of corporate social responsibility with the business strategy*

The positive impact of the top management team into inspiring the organization into |CSR is highly debatable. The general consensus within the literature remains that although the role of the senior management is significant in the implementation of the CSR ideas across the organization, its impact on CSR needs to be researched further for any significant results. Although the Top management team has been attributed as having a role of inspiring the organization (Lee, 2011, McWilliams and Siegel, 2002, Perrini and Minoja, 2008, Ramachandran, 2011), the same cannot be said about the ability of the top management team to inspire in the case of CSR. Social responsibility presents top management team with new challenges,. As they are only inclined on the needs of the organization to increase the profits, their ability to inspire the organization similarly to undertake essentially a venture which does not have any short term profitability gains is questionable (Heslin and Ochoa, 2008, Husted and Allen, 2007, MacGregor and Fontrodona, 2011).

Similarly, the impact that the Top management team has on integration of the corporate social responsibility of an organization into the business strategy of the organization is not clear, and a future research agenda component(Reinhardt and Stavins, 2010, Romero, 2010). The focus of most managers when developing a business strategy is on the long-term profit motive of the organization, and the way in which the managers can realign this focus to social issues in unclear, and would prove difficult for managers. The business strategy of companies, which is completely based on a socially responsible motive is more likely to be successful in integrating the strategy and CSR into a palatable mix for the senior management. Another research challenge is to evaluate the nature of the Top management team into the business strategy, and the amount of influence that these managers have on a positive CSR (Becker-Olsen et al., 2011, Bornhofen et al., 2011, Mackey et al., 2007).

Proposition 4: *The integration of corporate social responsibility into the business strategy has a positive influence on the improved financial performance of the organization*

The link between the business strategy of the organization and the financial performance has been clearly established in the academic literature. However, the link between the corporate social responsibility of the organization, and the way in which it can be integrated into the business strategy for the improved financial performance of the c organization is an under searched topic, which needs to be investigated further. However, from the literature ewe are able to dissect one main aspect that for the senior management one of the key issues is the way in which they are able to performed their businesses and improve their financial performance is important (Jones and Nisbet, 2011, Karaibrahimoglu, 2010). The use of CSR, if possible is one of the strategic direction that some companies can undertake to ensure that they can balance the strategic needs of growth and profitability while also catering to the societal needs. Another aspect of the linking of financial performance with CSR is that in some cases it may be prudent on the part of the senior management to implement a CSR led strategy, which can attract the conscience of the customers and can be a source of competitive advantage for the company (Scholtens, 2008, Yang et al., 2010).

The improved financial performance of the company is also seen as one of the key bench marks for the success of any company. The senior executives in an organization need to balance the financial needs of the company with the social and reputational needs of the organization and its stakeholders. The stakeholder theory gives us same insight into the way in which management can integrate the business strategy into the CSR. This can be undertaken with the help of the consideration of all the different kind of stakeholders and ensuring that a fair and just approach is used for balancing these different needs of the stakeholders, and not only considering the short term needs of the share holders for the immediate profit maximization by the managers (Neal and Cochran, 2008, Peloza, 2006, Scholtens, 2006).

Proposition 5: *The integration of CSR into governance has a positive influence on the improved financial performance.*

Financial performance of the company is not only dependent on the business strategy of the organization, but also on the governance arrangement that the company can undertake. The governance arrangements have a direct link to the financial performance of the organization (Bondy et al., 2008, Doh, 2006). The financial performance of many companies is based on the increase in profits at the cost of their corporate responsibilities. This however may not be the most prudent strategy, as the balanced approach would enable the organization to have a governance arrangement which is more prudent and long term in nature. Governance by its very nature is a critical issue for organizations, as the financial performance of the organization is linked to the way in which the governance is used by organization to develop long term strategies (Neal and Cochran, 2008, Post et al., 2011, Spitzeck, 2009).

Proposition 6: *The expectation of improved corporate financial performance has a positive influence on the adoption of corporate social responsibility*

The research agenda for this particular proposition is perhaps the most important. The link between the improved corporate financial performance with the adoption of the corporate social responsibility would be a neat balance between the different needs of the business (Mason and Simmons, 2011, Nikolaeva and Bicho, 2011), its different stakeholders and the shareholders of the organization. There is a need for managers to understand that the improve financial performance is not mutually exclusive with a socially responsible company, and the need to determine the long term strategic needs of the company can be aligned with the responsibility needs of the company towards the society. Another significant factor which the company would need to develop is to create an understanding of the company's different stakeholders that servicing the long term, social responsibility needs would in turn lead to better financial performance as the customers and other stakeholders of the company would see the ethical issues being dealt with by the company is a positive manner 2. Other critical issues would be to ensure that the company is able to deliver to the profitability for the shareholders. However, one of the key barrier to the integration and alignment of the corporate social responsibility with the improved financial performance needs of the company is the skills and interests of the senior management,, which have traditionally only focused on the financial needs of the company. One of the research agenda we propose is that more research is needed to link the different aspects of leadership, especially top management team with the ways in which companies fulfill their corporate social responsibility (Matten and Moon, 2008, Retolaza et al., 2009, Scherer and Palazzo, 2011).

Significant Studies and their methods are as follows:

Study	**Method**	**Sample**	**Study focus and findings/conclusions**
(Husted, 2003)	Literature Review	N/A	The increased competitiveness of the organization has led to managers increasing their focus on the return on their investments in CSR
(Arora and Dharwadkar, 2011)	Secondary Data	1522	Effective governance by organizations discourages positive and negative CSR, and increases higher slack and positive attainment discrepancy.
(Spitzeck, 2009)	Secondary Data from indexes	51	The researcher explores patterns of integrating corporate responsibility issues into corporate governance and how they have developed over time.
(Jamali and Mirshak, 2007)	In-depth Interviews	8	Corporate Governance and CSR are linked by most managers of organizations in Lebanon.
(Post et al., 2011)	Secondary Data	78	The composition of the board of directors has a direct link with the CSR functionality of the organization
(Morgan et al., 2009)	Secondary Data	N/A	Although corporate boards are assuming more oversight of CSR, more needs to be done.

(Galbreath, 2010)	Literature Review	N/A	Normally used approach of CSR such as triple bottom line approaches are too removed from the strategy of the firm.
(Waldman et al., 2006a)	Survey	232	More research needed to link leadership with CSR
(Neal and Cochran, 2008)	Literature Review	N/A	Need for organizations to learn from financial services when dealing with CSR.
(Angus-Leppan et al., 2010)	In-depth Interviews	11	Implicit and explicit CSR has significant impact on the leadership.

Conclusions

This paper has attempted to provide a theoretical foundation for examining the link between the corporate social responsibility and the financial performance of the organization. One of the key conclusions of this research seems to indicate that further research is needed to establish a more clear and direct link between the different elements of the financial performance and the CSR in an organization. One of the significant conclusions of this research is that the role of the top management team cannot be neglected in steering the organization towards a positive CSR. The role of the board of directors is especially integral to the successful implementation of CSR strategies, and they can be a foundation for the fostering of a business strategy, which fulfills the strategic need of the company as well as the socially responsible expectations from the organization. One of the significant conclusions of this research was the role of the diversity of the board of directors on the corporate governance, leading to a positive CSR in the organization. The way in which board of directors are chosen and selected for the organization is pivotal to their understanding of the socially responsible needs of the organization. This would also mean that the company needs to take a proactive view to the choosing of the highest level managers, as they would lead the organizations into improving their CSR positioning, which could then lead to improved financial performance for the company. One of the most critical factor which was identified by this research was that the focus of the board of director seems to be in the financial acumen, which is the key selection factor for the managers. The different ways in which directors are selected should also focus that the some of the board of directors are aware of the CSR needs in a proper manner, and can then implement a strategy which can be sued for the improvements in the overall outlook of the company as a more socially responsible for the society.

Another significant conclusion of this research is that the top management team should have a bearing on the way the organization deals with the societal issues. This is highly debatable, as was shown in the review of the literature. Although the literature on Top management team shows that the leader is inspirational and motivating for the organization, however it is not clear what impact the leader should have on the corporate social responsibility issues within the organization. Further research is needed to clarify these issues and to develop a link between the Top management team and the CSR strategy that a organization employs. Another significant issues, which was evaluated as part of this research was regarding the governance systems and their link with the CSR. Research clearly indicates that a governance system, which is aligned with the CSR strategy would have a positive long term impact on the financial performance of the organization. However, in many cases, the research points out that this has not been followed by the organization (such as Enron) in US, and this has resulted in a momentous events leading to the dissolution of the company,. In many cases, the corporate governance is being fed into the system as government legislative action to force the companies to follow an ethically positive stance, whoever we believe that this could be counterproductive. A more sensible strategy would be for self regulation, which would ensure that the management can implement the CSR according to their business and societal need, however senior management action is needed for such moves. Further research on this aspect of governance and CSR is also needed.

Another significant issues which this research also found was that the link between the strategic needs of the organization and CSR needs to be clearly marked and clarified. The long term business strategy of the company can be used, however within the realms of the stakeholder needs of the organization, which would ensure that the strategy of the company is able to fulfill the needs of all the stakeholders of the organization. Another critical factor in the needs of the organization, which needs to be taken into account is that the organizations need to give more importance to the balance between the different components of the CSR and the financial performance of the company. Another major research challenge is to ensure that the link between the governance and the financial performance is further researched, as this is an under researched area.

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