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The Relationship between Corporate Social Responsibility and Bankruptcy Risk mediated by Corporate Performance

By

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The relationship between corporate social responsibility and bankruptcy risk mediated by corporate performance

Mohamad Ali Safieddine

Abstract

This thesis examines the relationship between corporate social responsibility (CSR) and bankruptcy risk. Moreover, the research examines the mediating effects of corporate financial performance and changes in performance levels on the relationship. The results show that CSR significantly reduces the risks of going bankrupt. These results reflect the importance of the role that an organization's initiatives have in reducing firm's risk of going bankrupt. In addition, it is found that corporate performance and the changes in performance levels partially mediate the relationship between CSR and bankruptcy risk. Further research would consider a bigger sample size, other variables such as credit ratings and/or the changes in credit ratings, factors related to efficiency levels, changes in the levels of investments, and company's type of industry/sector.

Keywords: Corporate Social Responsibility, Bankruptcy Risk, and Corporate Performance

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Chapter One

Introduction

In this chapter, the background needed for this study is presented. The notion of CSR is introduced along with bankruptcy risk and corporate performance. Moreover, the importance of CSR in mitigating bankruptcy risk is introduced, and examines the mediating role corporate performance plays.

1.1 Overview

Corporate social responsibility (CSR) refers to a concept that has been applied in the business environment for decades but in recent years more companies are realizing the strategic benefits of the concept to a firm. Practicing corporate social responsibility may impact on a firm in a number of ways including improvement of consumer attitudes towards a brand, increasing sales and strengthening the relationship between a firm and community members. The current business environment has changed significantly especially based on technological advancements that have facilitated increased interactions between firms and their stakeholders as well as among consumers (Wood, 2011). Consequently, consumers can easily monitor the activities of firms in social media and generate conservations around a brand. In this regard, firms are under greater pressure to increase the role that they play in social issues in order to strengthen their relationship with communities in which they operate. Previous studies on the subject of corporate responsibility mostly concentrated on the impact that corporate social responsibility

has on brand perceptions, brand-consumer relationship and firm performance (Wood, 2011). However, CSR also impacts on other dimensions like employee satisfaction, motivation, organizational citizenship behavior, commitment, and bankruptcy risk (El Kassar, Messarra, and El Khalil, 2017). This research study aims to develop insights into the role that CSR plays in influencing a firm's bankruptcy risk. The focus of this study is founded on the argument that non-financial information also influences credit rating of a firm and its ability to operate sustainably in a market.

Credit rating refers to the score that a firm is assigned by a credit rating agency upon evaluation of both qualitative and quantitative information regarding the credit worthiness of the firm. This evaluation is based on the ability of the firm to pay back money that is borrowed or the probability of the company defaulting on its debt. Agencies that conduct credit ratings disclose the results that they generate from their evaluation of firms to enable investors to make informed decisions (Daily and Dalton, 2014). Conducting evaluation of all credit risks by investors is challenging as there are numerous aspects to be considered therefore credit rating agencies offer a guideline for investors that enables them to identify firms that are credit worthy and that have higher probability of operating sustainably in the market. While credit rating is fundamentally based on the financial reports that firms announce, non-financial elements like CSR may also influence credit rating (Wood, 2011; El Kassar, Messarra, and El Gammal, 2015). A firm that practices corporate social responsibility reduces the risk of information asymmetry that may develop between investors as it facilitates announcement of information that is reliable (Kim and Kim, 2014). Additionally, corporate social responsibility can contribute to reduced ethical responsibility of a firm on its bankruptcy risks through provision of accurate, relevant and reliable information to investors. Having identified the potential

influence that corporate social responsibility may have on bankruptcy risk in a firm, this research study seeks to expound on the subject of CSR and bankruptcy risk to determine the relationship shared between these two variables and by using performance of a firm as the mediator.

1.2 Thesis statement

Corporate social responsibility significantly and negatively impacts bankruptcy risk levels of a company, while the financial performance mediates that relationship.

1.3Chapter summary

This chapter provides an overview of CSR, bankruptcy risk, corporate performance and the relationship that CSR share with bankruptcy risk. The chapter defines CSR and the manner in which the concept applies in the business context. The concept of bankruptcy is also defined and risk of insolvency discussed. Based on the desire of firms to operate profitability, it is essential to put in place measures that will improve sustainable operation and reduce bankruptcy. CSR is identified to be a practice that may reduce bankruptcy risk hence indicating the significance of this research study. Findings from this research study would enable businesses to make appropriate decisions regarding adoption of CSR to improve profitability and reduce bankruptcy risk. The influence of CSR on bankruptcy risk is based on improvement of compliance with ethical, legal and moral requirements and the improvement in corporate performance. Corporate performance can be measures using financial ratios such as profitability ratio, insolvency ratio, liquidity ratio and efficiency ratio.

In later chapters, chapter 2 will present a literature review of the variables CSR, bankruptcy risk, and corporate performance. Chapter 3 presents the hypothesis development; chapter 4, the methodology used; chapter 5, the statistical analysis; and chapter 6, the conclusion and discussion.

Chapter Two

Literature review

2.1 Introduction

Over the years, most scholars have researched on the importance of CSR in various settings. This has been as a result of increased view of the merits that contemporary organizations are realizing by adopting effective CSR measures. Through the adoption of a sound social responsibility, organizations are able to minimize threats from their external environment while at the same time increasing their ability to exploit opportunities facing them (Jackson, Reino, &Mo˜tsmees, 2012). Firms are not only pursuing profits, but also pursuing triple bottom line by taking care of their significant stakeholders who includes the society and the environment. The focus of this chapter is to make a scholarly contribution on the relationship that exists between CSR and the risk of insolvency on firms. While the area of enquiry has been less visited as considered to other areas such as CSR and profitability, it is evident that it is a significant area of enquiry in the aftermath of the recent global economic decline where many firms went to bankruptcy, having engaged in operation methods that were against the true spirit of social responsibility. Various contributions by various scholars will be consulted in this section.

2.2Corporate Social Responsibility

The aspect of CSR originated from the 1929 Wall Street crash where critics on corporate irresponsibility were subjected to discussion by key stakeholders. Following the crisis, formal writings have been conducted to assess the evidence-based CSR initiatives especially on organizations (Jackson, Reino&Mo˜tsmees, 2012). The focus is on improving the expectation of the business operations through providing the consumers or the society with high living standards and influencing their ways of living. With the widespread nature of economic security and progress required in the modern economy, responsiveness and social audit of the company's operation is a requirement in the modern business organizations. Various theories have been formulated to address the concept of CSR. One of these is the stakeholder theory (Jackson, Reino & Mo˜tsmees, 2012). This theory will be discussed in details further (see page 9).

Following this development, the concept of CSR has evolved with the focus being on organization structure and the economic and legal interests prevailing in the sector. Although not all literature supported the concept of CSR, it has manifested itself to be part of the modern organizations and in the case of reporting of financial statements, the issue of CSR is included in the annual reports. However, issues surrounding the role of managers in the organization have meant that individuals have raised their concerns regarding the concept of CSR. Clarkson (2015) argues that the duty of the manager is on maximizing the profits of the shareholders, and not to offer CSR initiatives to the community. Based on this argument, the concept of voluntarism was undertaken and business owners acknowledged the widespread technicality and the organization's economic situation.

Corporate social responsibility can be categorized into three dimensions – environmental, social and economic dimensions. The economic dimension of CSR is often overlooked as some scholars and professionals consider it to be addressed adequately in the company's strategies, management and operations. The perspective developed is that the economic aspect of CSR refers to the need of the firm to remain financially accountable and maintain sustainable operations (Daily and Dalton, 2014). Corporate economic responsibility extends beyond financial accountability of a firm and involves taking into consideration the economic influence that operations of a firm would have on the firm's stakeholders and the surrounding community. Under the multiplier effect, the theory developed is that a firm's economics influence its stakeholders in a direct or indirect manner. The stakeholders include employees, consumers, suppliers as well as the local government. For instance, positive financial performance by a firm facilitates expansion and additional investment in the well-being of staff. The staff benefit from good salaries hence enabling them to purchase more products and resulting in more taxes collected by the local government (Clarkson, 2012). The economic aspect of CSR may also be exhibited by accurate and consistent payment of taxes which translates to societal development.

A second dimension of CSR is the social aspect and it involves a firm taking into consideration the direct and indirect influence that its operations have on people in the community. The firm is required to make effort to ensure that its actions do not harm the interests of stakeholders. This means that the firm may put in place initiatives that focus on improving the welfare of customers, employees and the people in the community. For instance, ensuring that a firm's products are safe as well as durable constitutes socially responsible behavior.

The third dimension is on the environmental aspect and it involves taking into consideration the impact that a firm's activities have on the environment. In recent years, environmental preservation and improvement have gained much attention largely due to global warming as well as the negative effect that industrialization has caused on the environment (Esptein, 2007). Among the common negative effects that firm operations may have on the environment are pollution, exploitation and depletion of natural resources and the degradation of biodiversity. There exists an opportunity for mutual benefit in engaging in environmental improvement initiatives since a firm would improve the perception of consumers towards its brand, costs of operation would decline (based on conservation of raw materials) and the environment would be protected from harm.

There are prominent themes that have taken the center stage in the past decade with the issues of business ethics, stakeholder theory, sustainability, and corporate social performance (CSP) being amongst the key issues that are driving the organizations. The existence of the interconnection existing between the society and the organization is based on three key aspects of analysis including the legitimacy principle, which is important in the institutional level and organization level. In the study by Barnea& Rubin (2010), CSR reporting has been part of the organization's initiatives and it has been useful in showcasing the implication of management on the development of key platforms that will aid in achieving positive attributes with the respective customers. Although there have been issues associated with the contribution of CSR in the organization, it has always realized positivity in the way activities are conducted.

Stakeholders refer to any entity to an organization that such organizations aims at influencing. At the same time, such stakeholders have an influence on the performance of the organization in the market. The most recognized stakeholders in an accounting entity include the government, the shareholders, employees and competitors among others. Lenders are also important stakeholders to accounting entities as they provide them with resources necessary for their operations. When an entity fails to meet their obligations to the lenders, they may end up falling into bankruptcy. The stake holders have values and norms that they would expect fulfilled by such entities. For instance, it is the conventional expectation of lenders that an accounting entity will utilize funds in the right manner. Until recently, many stakeholders viewed the role of the firm as mainly being that of serving the need of the shareholders alone. This process was to be attained through engaging in shareholder wealth maximization processes. The stakeholder theory indicates that the shareholders may not be in a position to realize their goals in full without first focusing on serving the goals of the other stakeholders. How the stakeholders views an organization underpins all the other interactions. It is thus important to identify the manner in which an accounting entity is viewed in terms of ethical as well as social considerations. Stakeholders have a potential of either positively or negatively influencing operations of an organization. They may opt to be non-responsive to public demands. This may reduce their ability to be at par with the demands of such stakeholders. For instance, when the public views that an organization is exploiting it or providing it with poor quality products, it may opt to stop dealing with the organization. Consequently, the sales volume may decline in such an entity. When this happen the overall profitability of an entity declines, it may end up being forced

to borrow massively to meet demand of its stakeholders something that would push the organization further towards the risk of bankruptcy (Wood, 2011).

Corporate social responsibility creates both advantages and some limitations for a firm. A key advantage is improvement of profitability as well as firm value (Barnea and Rubin, 2010). The firm gets to achieve reduced costs of operation based on waste recycling as well as energy efficiencies among other environmental improvement initiatives. Additionally, a firm that engages in CSR becomes more accountable and transparent therefore the firm's reputation is improved and its stock value grows (Esptein, 2007). CSR also causes a firm to develop positive customer relations as consumers prefer to transact with a firm that is a good corporate citizen. While CSR is largely considered beneficial, it is associated with a few limitations such as the costs incurred in developing and executing social responsibility initiatives. Financial strain is especially felt by small businesses which may not have free cash flow to direct to CSR initiatives and in marketing to communicate its CSR policy to various stakeholders (Chen and Hsu, 2015). Another limitation of CSR is potential dissent from shareholders who argue that the primary focus of the management should be to maximize profit. Since the shareholders desire profit to be prioritized, they would oppose allocation of resources to CSR initiatives and may even require a manager who forsakes profits to benefit the community to be replaced (Barnea and Rubin, 2010).

2.3 Bankruptcy Risk

Bankruptcy represents a legal term used to refer to a firm that has lost its capability to pay off an outstanding debt. Only a federal court or a state court has the authority to grant this status and the status negatively impacts the future financial as

well as sustainable operation of a firm. Normally, a firm does not become bankrupt in an abrupt manner but instead it undergoes a process that may vary in length and that results in business failure. Laitinen and Lukason (2014) explain that the failure may develop based on factors such as age, industry, firm size as well as the country in which the firm is located.

The possibility that a firm will fail to meet the obligations it has on its debt is referred to as bankruptcy risk. Bankruptcy risk therefore entails the likelihood of a business enterprise to become insolvent since it lacks the ability to pay up its debt (Delcea et al, 2012). The inability of a firm to service its debt may occur due to a number of factors such as cash flow problems that are created by low sales against high operating expenses. In order to solve the problems that are has with cash flow; the firm may choose to get more short-term loans. However, if the situation fails to get any better, then the firm faces the risk of becoming insolvent (Kim and Kim, 2014). Many investors take into consideration the bankruptcy risk of a firm before they make an investment decision. Financial obligations are often contractual and when a firm is facing financial challenges, it may fail to meet such obligation when they are due. The obligations range in type and size and may include interest on debts and principal payments on debt. A firm may also have financial obligations with regards to income taxes. When a firm fails to meet the contractual financial obligations that it has, it becomes insolvent. Insolvency may be technical or legal (Delcea et al, 2012). Technical insolvency occurs when a firm is incapable of meetings its financial obligations as they come due yet the value of assets it possess are more than the value of liabilities. Legal insolvency, on the other hand, occurs when a firm has lower value of assets compared to the value of liabilities. When a

firm becomes either technically or legally insolvent, it may file a bankruptcy petition and be declared bankrupt (Kim and Kim, 2014).

An example of a firm that experience bankruptcy is Pacific Gas and Electric Company in the year 2001. The firm was valued at $36.15 billion at bankruptcy. The company was a utility firm headquartered in California and was affected by the electricity crisis that affected the California state in the years 2000 and 2001. The State experience widespread blackout and the cost of electricity rose significantly largely due to the deregulation of the energy industry that happened in California in the year 1996. The state was the first in the country to take this step and the crisis affected other companies such as Enron. Enron chose to cut off power with the expectation of manipulating prices hence making the crisis worse. PG and E was able to leave bankruptcy three years later in the year 2004. The company bankruptcy ranks among the 10 largest bankruptcies in American history.

2.4 Corporate performance

In evaluating corporate performance, financial ratios are utilized to predict the firm's sustainability or potential failure. Financial ratios illustrate the relationship shared by financial statement items. They contain historical information on the company's operations, costs, revenue and liabilities among other elements. The management can utilize ratios to point out internal strengths as well as weaknesses and develop an estimate of the performance of the firm financially in years to come. Ratios may be utilized by investors for company comparison in a market to determine the one with the highest growth potential, low bankruptcy risk and high credit worthiness (Wood, 2011). Ratios may not necessarily be meaningful if used in

a standalone approach but they would be understandable and meaningful if comparison was done of the ratios against other aspects such as historical information or industry averages. The ratios that are utilized include liquidity, solvency, profitability and efficiency. A ratio that exceeds one often represents a minimum since a lower number would mean that the firm's liabilities are more than its assets. A higher ratio illustrates that the firm has a safety cushion thereby it has greater flexibility since some of the items in its inventory as well as receivable balances may not be converted to cash easily. In order to improve a firm's current ratio, a common strategy used is paying down debt or conversion of short-term debt into long-term debt.

Solvency ratios illustrate the stability that a firm has financially since they measure the debt of a firm relative to the assets as well as equity that it holds. A company that has too much debt may be less flexible in managing cash flow in the event that interest rates increase or the business conditions become worse. Common solvency ratios used are 'debt-to-asset' and 'debt-to-equity' ratios. Another ratio used in evaluating financial performance is profitability ratio. Profitability ratios include gross margin and income margin and they illustrate the ability of the management to turn sales into profit as well as cash flow. In calculating the gross margin, the gross profits are compared against the sales. Gross profit refer to the sales minus the cost of product that have been sold. Operating margin is calculated by comparing operating profits against sales. Operating profits refer to the gross profit subtracted operating expenses. A fourth ratio that is used in evaluating corporate performance is efficiency ratio (Turker, 2009). Inventory turnover and receivables turnover are commonly used. The ratio facilitates tracking of outstanding credit sales. When the

receivables turnover is high, the company is shown to have successfully collected its outstanding credit balances.

Chapter Three

Hypothesis Development

In this chapter, the author will develop the hypotheses to be examined in the study. The hypotheses developed are the direct relationship between CSR and bankruptcy risk, CSR and corporate performance, corporate performance and bankruptcy risk, and the mediating role corporate performance plays in the relationship between CSR and bankruptcy risk.

3.1Corporate Social Responsibility and Bankruptcy Risk

Many of the rating agencies do focus on various indicators of bankruptcy. This is done in an effort to assess whether firms are faced with the risk of bankruptcy or not. Corporate social responsibility reports indicate the organization status. It indicates the challenges that the organization is facing, the stakeholders that the entity is dealing with as well as the efforts that the organization has put in place in serving the needs of these stakeholders. Through effective CSR, firms ensures that all the key stakeholders are furnished with up to date information. Through such communication, any risk of insolvency is identified within such organizations. Nevertheless, the contribution of CSR as a forewarning on bankruptcy has largely been ignored (Jackson, Reino, &Mo˜tsmees, 2012).

Institutional investors are today emphasizing on investing in organizations that are socially responsible. Scholars have assessed the application of CSR in the corporate world from multiple lenses. New insights into CSR indicate that CSR may

be used in averting risks in such entities. They help in improving the relationship of the firm with its stakeholders. They also help in promoting the long term sustainability of such firms in the society. Moreover, CSR is viewed as an indicator that the entity is utilizing its resources in an effective manner to the extent that it is in a position to contribute to the society as well as towards the environment. By improving its relations with stakeholders, the firm significantly enhances its sustainability. In some cases, stakeholders such as banks are more willing to restructure loans issued to socially responsible firms. This is unlike socially irresponsible firms which are often ignored by such organizations. When lenders suspect that an entity is heading to collapse as a result of misuse of funds, they tend to rush to recover their funds through liquidation. When firms are viewed positively, they may engage in a more considerate approach with the external stakeholders including the lenders. At the same time relationship has in the past been identified by scholars between CSR and stock price crash risks. This is based on the fact that stakeholders tend to take news of slight decline in performance positively when such information emanates from a firm that has been transparent all along as opposed to firms that are known for hoarding negative information.

In the past, while many scholars have engaged in the study of the effect of CSR on financial performance, only few studies that exists which link CSR with times of financial distress in accounting entities. Nevertheless, the current scholarly contributions indicates that firms that are in financial distress are likely to emerge faster from such distress if they are known for being good corporate citizens as opposed to firms that are not good citizens. Moral exchange ends up playing an important role in such settlements. In accounting entities, filing for bankruptcy is viewed as a negative indication. The managers as well as the firm end up signaling

adverse information to the stakeholders. There are always questions as to what actually precipitated the bankruptcy.

Firms that operate in a socially responsible manner equally ends up operating within the confines of the law, though these are two different concepts. Such firms recognize that it is their duty to respect the law. Without the law, it would be impossible for legal entities to operate sustainably. When firms fail to adhere to the law, there are multiple consequences that they may face. Such consequences would end up reducing the overall level of their sustainability. For instance, firms are expected to make the right level of financial disclosure by the law. False disclosure may result to the organization losing its license. In other instances, the firm may end up being slammed with massive fines. Such fines may reduce their sustainability. Huge costs at a time when the organization is struggling with liquidity levels may end up making it difficult for the organization to continue operating, something that would expose them to the risk of insolvency. Failure to honor contractual obligations may also result to huge fines that the entity may find it difficult to meet. These challenges may end up pushing the organization to closure, making its operations non sustainable in the long run.

The hypothesis developed from information on CSR and bankruptcy risk is that a firm that is active in pursuing its CSR goals achieves improved financial performance and lower bankruptcy risk. The opposite applies whereby a firm that does not engage in corporate social responsibility is vulnerable to insolvency and bankruptcy. The inference is that a firm that has sound social responsibility is founded on excellent employee as well as customer satisfaction and these elements are main factors in developing high company value in a market (Turker, 2009). A

firm that engages in CSR is hence highly likely to achieve high corporate performance and operate sustainably in the market without running bankrupt.

Thus, the hypothesis developed is:

H1: CSR has a negative effect on bankruptcy risk

3.2Corporate Performance and Bankruptcy Risk

Firms go bankrupt when they fail to meet the obligations that they have to the outside stakeholders. They may fail to meet their obligations to the creditors as well as to the lenders. As a result, they are forced to terminate their operations as these stakeholders are set to recover their funds from the sale of the assets of the entity. On the other hand, good performance reduces instances of bankruptcy (Kotler, 2010). The organization is able to generate huge profits from operations as well as from their investments. They are also in a position to realize positive cash flows from these activities. It is worth noting that organizations rely on cash in meeting their financial obligations rather than the profits. As a result of having positive cash flows, the entity is in a position to meet its financial obligations. Efficient utilization of resources ends up increasing its return on assets. As a result, profitability is enhanced. More so, efficient use of resources implies that the organization does not have to engage in massive borrowing. The income it receives from operations may end up being used to increase the volume of its assets. As a result, the organization financial stability is enhanced and it may not need to engage in extensive borrowing. This process results to a scenario where the risk of falling into bankruptcy by such an organization is reduced.

The concept of creditors' bargain theory is of importance as it provides an understanding of the existence of bankruptcy in the organization. The hypothetical

nature of the creditors' bargain theory is formulated on the basis of reorganization. The bankruptcy procedure that is formulated is collective and mandatory and it is essential in shaping the way individuals demand the operations of the entity. The reasons for creditors and debtors choosing either collective or mandatory (Daily & Dalton, 2014) procedure are to maximize their values and ensure that the cost of operations is minimized in the long-run. When looking at the strategies that are employed by the organization, the strategic costs play an important role in understanding the bankruptcy situation of the organization. In a situation where there is need to monitor the operations of the entity; the concern is on understanding the financial status and the payment ability of the organization. In most cases, the debtor's business can be subjected to premature termination and this can result to strategic cost implications on the collective bankruptcy procedure provided.

For bankruptcy, the debtors of the organization are the ones that are largely affected and there is need for the organization to manage inefficiencies that might be reported in the industry (Delcea, Scarlat & Maracine, 2012). The overall economic value of the debtors needs to be maximized and this is the basis for improving the efficiency of operations, thus leading to effective payment process. CSR initiatives have always been taken to largely impact the overall bargaining power of the debtors and creditors, which has affected the going-concern liquidation and piecemeal liquidation. The bankruptcy reorganization is the same as liquidation of the company and it is based on the prevailing market pricing strategies that are embodied in the sector. The bankruptcy assets can be deemed to be influential in changing the scope and course of undertaking operations within the organization. Therefore, the hypothesis that can be derived is as follows:

H2: Corporate performance negatively effects bankruptcy risk

3.3Corporate Social Responsibility and Levels of Financial Performance

Since the concept of CSR was adopted in the 1960's, its popularity in the corporate world has increased significantly. There is increasing linkage between social responsibility and financial performance, based on undeniable justifications. There has been an increase in interest between the practitioners as well as the scholars alike. CSR results to improved reputation of organizations (Lyon, & Maxwell, 2008). As a result, such organization ends up attracting high number of customers increasing profitability. Firms may direct their view on social responsibility on particular areas. For instance, the organization may end up focusing on human rights. Customers who are sensitive to the need of human rights in the society would end up getting significantly attracted to the operations of the organization (Wood, 2011).

Stakeholder theory provided a new way in which thinking can be organized in understanding the organizational responsibilities that prevail in the economy. The needs for shareholders need to be met and they should be satisfied rather than relying extensively on profit maximization. The primary concern of the organization should be on realizing the value for shareholders or maximizing the shareholder's wealth. According to Kim and Kim (2014), an inclusive shareholder Approach that is undertaken by the management provides a commercial sense in ensuring that organizations can easily maximize the wealth attributed to the shareholders and this can increase the value addition reported in the sectors, Most of the scholars have focused on the importance of stakeholder approach when addressing the issue of CSR. The stakeholders need to capitalize on the available resources and determine the avenues in which the organization can offer its services to the public.

As illustrated in the table below, the values of different stakeholders are provided. Employees are concerned with being offered with quality health services and safety at work place. They are also concerned with development of their skills, growth in career, social equity, quality of work, and social satisfaction and well-being. The intention is to ensure that it creates a positive reputation in the sector and meets the overwhelming tasks provided by the management (Delcea, Scarlat & Maracine, 2012). In the case of suppliers, they are concerned with developing partnership with the company as this is the basis for improving their quality of operations and achieving competitiveness in the sector. The management should be involved in the selection and analysis of the suppliers through the use of quality systems that are up-to-date with the requirement in the industry.

Customers are the main stakeholders for the company and they should be offered with quality services, quality products, and safety on the products that they are consuming. With the formulation of measures to ensure that consumer protection takes the center stage, it will be important in assuring them that the management is involved with offering quality services to them and providing transparent information that will aid in realizing effective and reliable decision making process (Kim and Kim 2014). The transparency in the operations and the product information can change the views of the customers and it is critical in necessitating customer retention. For community, the intention for CSR initiative is giving back to the community, and it is the duty of the management to ensure that the services that are offered add value to the operations of the community including safety and increasing the production capacity. The value addition services that are offered by the management can be influential in increasing production capacity and changing the trends and dynamism in the sector.

The grid of values (Longo et al., 2005)	
Stakeholder	Expectations divided into value classes
Employees	Health and safety at work Development of workers' skills Wellbeing and satisfaction of worker Quality of work Social equity
Suppliers	Partnership between ordering company and supplier Selection and analysis systems of suppliers
Customers	Product quality Safety of customer during use of product Consumer protection Transparency of consumer product information
Community	Creation of added value to the community Environmental safety and production

While the precept of stakeholder theory is that the duty of the organization is on integrating its operations in an attempt of meeting the needs of the stakeholders, the balancing of its operations with the other companies can prove futile and difficult to integrate. The social value that characterizes the organization can be influential in shaping the practice and influence the rationality of the operations of the organization. As such, it is important for the organization to always consider developing measures that will improve the views and perception of the stakeholders in the long-run. Thus, the third hypothesis formulated would be:

H3: CSR has positive effects on corporate performance levels

3.4Mediating Role of Corporate Performance

3.4.1 CSR and Investment Decisions

All companies are encountered with the hard decision of choosing between different investments options from time to time. As one of the main goals of a business is to maximize the profits, it is not advisable to waste money on investments that put the company's resources at risk without a high chance of return. Corporate Social Responsibility has been linked to the decision-making the process for a firm's long-term investments. Cheng et al. (2014) found that firms that have better CSR performance tend to have better access to capital and hence better opportunities for long-term investments. In particular, exposure to risk for firms that engage in CSR activities was found to be lower than those that do not. Since risk is a major determining factor when accessing capital, this shows that companies that engage in better CSR activities can access more capital that the firms that do not.

El Ghoul et al. (2011) also did a similar study relating CSR to the access to capital. This study found that the cost of equity for the firms that engage in CSR is usually reduced thus reducing the perceived risk and the investor base. The better access to capital does not only reflect on the increased investors but also to the financial decisions that the company will be able to make. The lower financing costs increase the firm’s access to financing hence increasing its ability to engage in long-term financing activities. Therefore, CSR activities can enable a company to overcome financing challenges.

By investing in CSR activities, a company helps to increase its accountability for issues that relate to the stakeholders. Without these activities, the company is

likely to undergo some long-term unperceived setbacks in the future hence the increased risk on the investment of the company. However, with proper corporate social responsibility techniques in place, the investors can be able to see that the company has protected itself from the possible risks. An example of a company that has experienced a great financial loss due to its lack of CSR is Volkswagen, an automobile manufacturer. The company installed software on some of its car models so that the real level of greenhouse gas emissions would not be detected when they were tested. By doing this, the company was releasing cars whose level of emission is above the acceptable minimum according to the regulations of many countries. However, this was soon discovered, and the software installation allegations were proven to be true. Therefore, the company ended up having most of its cars recalled and had to pay billions of dollars in legal settlements. This caused a decline in the company's share price and the exit of a lot of customers and investments. The example of Volkswagen shows why investors and other financiers like to distant themselves from firms that have low CSR standards. The increased probability of financial setbacks is a major reason why they would not want to invest their money in a particular firm. Lawsuits, claims for environmental destruction and consumer boycott are some of the causes of unexpected financial setbacks. Therefore, these companies find it hard to get money to be used for long term investments.

CSR also helps to increase chances of long-term investments by reducing opportunistic behaviors among a firm’s managerial team. Jo and Harjoto (2012) conducted a study that links corporate governance to corporate social responsibility. In their study, the authors found that there exists a positive relationship between these two aspects of an organization. A firm with better corporate governance is engages more in CSR activities and vice versa (Jo and

Harjoto, 2012). A company's effort to enhance positive corporate governance helps it to increase its transparency and accountability, hence increasing the chances of engaging in CSR activities (El Kassar, El Gammal, and Bayoud, 2014). Consequently, these two aspects of an organization are linked to resource allocation to long-term investments. Better corporate governance is linked to the thought of the future rather than the short-term investments of the firm. CSR is known to have a short-term negative effect on the financials of a firm but a long-term gain to the firm (Jo and Harjoto, 2011). Therefore, in a firm with poor corporate governance, the investment on CSR is likely to be low because the managerial team only focuses on the short term gains. Eccless et al. (2012) helped to prove this point through a study that found that highly sustainable firms are more likely to be long-term oriented. The study argued that the sustainable firms make their investment decisions based on the long-term effects that they will have on their stakeholders.

From the arguments by various researchers on the connection between CSR and long-term investment opportunities for a firm, it is clear that firms that engage in CSR activities make positive investment decisions that can improve the companies' sustainability. When better investment decisions are made, then it is less likely that a firm may experience financial difficulties that can lead to bankruptcy.

3.4.2 CSR and Efficiency

There are some researchers who have studied the impact of CSR on a company's efficiency and therefore, the reduced possibility of financial problems within the company. The compliance with the policies of CSR has been found to have a positive effect on the efficiency, effectiveness, productivity, and innovation of a company. Sahut et al. (2014) found that firms that participate in CSR activities

have stronger corporate culture values. Corporate culture includes the values, principles, and beliefs that guide the day-to-day activities of a firm. A firm with a positive corporate culture is more likely to engage in activities that promote sustainability. Sahut et al. (2012) conducted a study to link sustainability to the performance of a company. A firm that is committed to sustainability implements strategies that aim to increase performance for the benefit of all the stakeholders.

In order to be productive and sustainable at the same time, a firm has to implement innovative strategies that enable the maintenance of the sustainability. For instance, a firm that produces automobiles has to be very innovative in order to create products that have low levels of harmful emissions. This innovativeness does not only help the company to meet the legal, environmental regulations but also help to increase the chances of product development. When a product that has low levels of emissions while also being efficient at the same time is created, the automobile company can be more attractive to the consumers hence increasing its sales. This shows that no matter the reason for a company to engage in CSR, the long-term effects on the firm's productivity are usually positive.

Corporate Social Responsibility brings about different factors that contribute to a firm's efficiency. It helps to build a strong corporate culture that is grounded on strong beliefs and values. Such a culture in an organization promotes employee satisfaction, hence increasing productivity. Secondly, CSR brings about the fair valuation of human capital. In a firm that has a good corporate social responsibility, the contribution of all employees is promoted and appreciated. This contributes to job satisfaction. Various studies have been done to find the link between job satisfaction and employee productivity. A study by Bakotic (2016) found that there exists a positive link between job satisfaction and job performance.

Employees who are satisfied with their jobs and work environments are more likely to be productive in the workplace. Since CSR is linked to job satisfaction, this shows that it has a connection to increased productivity. CSR also brings about financial prudence and controlled growth, good governance, and an increased possibility of strategic alliances. The impact of CSR on financial prudence and good corporate governance has been addressed in the sub-section above. Conversely, CSR is likely to contribute to the possibility of strategic alliances. Strategic Alliances are agreements or partnerships between two or more business organizations to perform a particular activity for the achievement of a common objective while still remaining independent. Firms that are based on values only want to be associated with other firms that share their culture. Participating in CSR activities helps to depict the positive values of a firm through its promotion of social well-being. Therefore a firm that engages in CSR activities is more likely to attract other firms that may want to engage in strategic alliances. Strategic alliances are important for the promotion of a firm's efficiency. That helps companies to improve their competitiveness, enter new markets, supplement some critical skills, and have access to new forms to resources among other things. All these factors help to increase the productivity and financial success of a company hence reducing its chances of experiencing serious financial issues that may lead to bankruptcy. Hence, it is important for a firm to improve its corporate social responsibility so that other firms that may have shared goals may be willing to join forces with them for the promotion of efficiency.

Organizational efficiency has been linked to improved financial performance. Efficiency and effectiveness are linked to productivity and hence, improved financial performance. Therefore, if CSR contributes to efficiency, this shows that it has the power to contribute to good financial productivity hence

reducing the chances of a firm experiencing financial issues that may cause the company to become insolvent. This helps to prove the connection between CSR activities and bankruptcy as this research seek to investigate. All the said above formulates the last hypothesis:

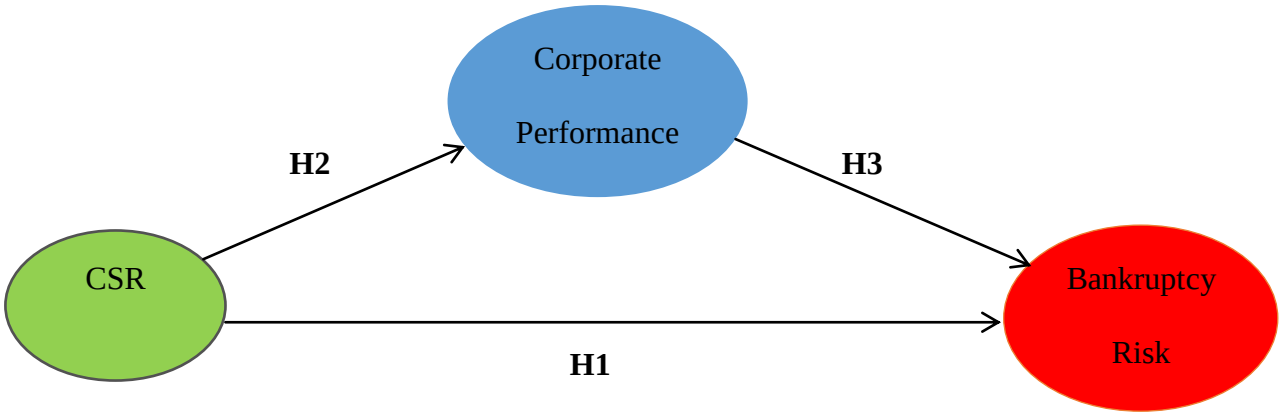
H4: Corporate performance mediated the relationship between CSR and bankruptcy risk.

3.5Chapter summary

From this chapter, it is evident that CSR is an important aspect in accounting entities. Through sound social responsibility, firms ensure that their operations are in line with the legal requirements. As a result, this prevents them from having their licenses cancelled or incurring heavy fines. At the same time, socially responsible operations ensure that operations of the accounting entity are ethical. As a result, the organization does not end up losing funds due to misappropriation. As a result, the overall performance of such organizations would be enhanced.

The above consulted literature indicates that CSR results to improved financial performance. Customers are attracted towards socially responsible organizations. As a result, such firms are in a position to realize increase in profits. At the same time, fund providers are willing to issue more funds to socially reasonable firms hence increasing their chance to boost their financial performance. The consulted literature thus indicates that CSR has the potential of reducing chances of an organization falling into bankruptcy, something that is mediated by this improved financial performance.

Therefore, the proposed model for this research is as follows:



Chapter Four

Methodology

In this chapter, we introduce the sample and variables measured. In addition, the scales used to measure the variables and the instruments used are presented.

4.1 Sample and Measured Variables

The formulated survey was distributed to 8,726 currently enrolled and working MBA students, in addition to alumni students. The sample consists of 154 respondents of alumni and working MBA students. These working employees are well knowledgeable about their companies' CSR activities, as well as the financial performance. The questionnaire includes questions about the key variables CSR, Bankruptcy risks, and performance level, in addition to the demographics factors. 15 items from Turker's (2009) scale measurements of CSR will be used to assess CSR towards stakeholders (6 items), CSR towards employees (6 items), and CSR towards customers (3 items). Moreover, performance will be measured by a questionnaire used in Fahed-Sreih and El Kassar (2017) asking about previous levels of sales, market share, employees' number, and growth of profitability, levels of Return on Assets (ROA), profit margin, and the capability to raise funds from profits. This survey is commonly used in several research papers as a credible assessment of corporate financial performance (see for example: Yunis, El Kassar, and Tarhini, 2017) All these variables will be compared to the current performance levels. Finally, bankruptcy risk will be assessed through a survey by Delcea, Scarlat, and Maracine (2012) that questions 6 groups of causes, with a total of 27 questions: Competitiveness (7 items), Learning (5 items), Marketing (4 items), Management (4

items), Planning (2 items), and Resources (5 items).The survey is presented in Appendix A.

The CSR components are measured using the 5-point Likert scale: *1: strongly disagree, 2: disagree, 3: neutral, 4: agree, 5: strongly agree.* Performance levels' questions are measured using the scale: *1: poor, 2: fair, 3: good, 4: very good, and 5: excellent*, whereas, the bankruptcy risk questionnaire is measured with the inverse of that scale: *1: excellent, 2: very good, 3: neutral, 4: fair, and 5: poor.* The previous performance level questions are measured using the scale: *1: much worse, 2: worse, 3: same, 4: higher, and 5: much higher.*

4.2 Instrumentation

The data collected is used to examine the relationships between CSR, bankruptcy risk and performance using various statistical analysis techniques. The statistical techniques used include: *Descriptive Analysis, Cross Tabulations, reliability analysis, factor analysis, Correlation and Regression Analysis, as well as mediation analysis.* Statistical analyses used to test the proposed hypotheses are conducted using the statistical software SPSS and Microsoft Excel. The mediation analysis is carried out using Hayes Macro process (Hayes, 2012).

First, the analysis of the descriptive variables was done, along with the cross tabulation tests performed on the relationship between age, years of experience, and education on one hand, and occupation on the other hand. Finally, the regression analysis was performed, starting with coding the appropriate notations of the variables; conducting the factor analysis, reliability test, and parceling analysis; and examining the relationships among the studied variables using the regression analysis.

Chapter Five

Statistical Analysis

This chapter presents the statistical analysis results. It starts with the presentation of the descriptive analysis along with the cross tabulation tests performed on the relationship between age, years of experience, and education on one hand, and occupation on the other hand. Finally, the regression analysis and its process are presented.

5.1 Descriptive Analysis

The sample consists of 154 individuals. The below table show the educational level distribution showed that 20 employees have and undergraduate degree (13%), and 134 with a graduate degree (87%). The results are also presented in figure 1.

TABLE 1: DISTRIBUTION OF EUCATION

Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Undergraduate University Degree	20	13.0	13.0	13.0
Graduate Degree	134	87.0	87.0	100.0
Total	154	100.0	100.0	

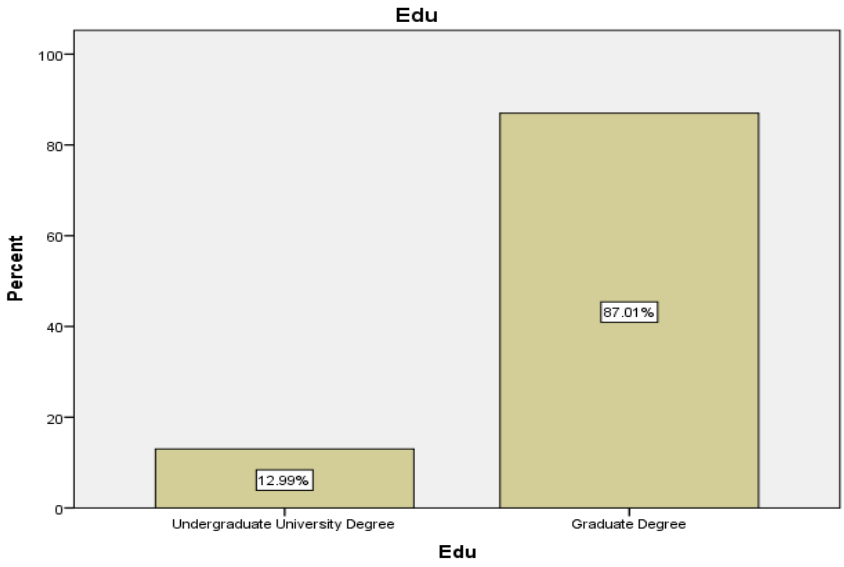


FIGURE 1: DISTRIBUTION OF DEGREE

TABLE 2: DISTRIBUTION OF POSITION

Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Top Management	12	7.8	7.8	7.8
	Middle Management	34	22.1	22.1	29.9
	Supervisory	22	14.3	14.3	44.2
	Non-managerial	86	55.8	55.8	100.0
	Total	154	100.0	100.0	

As for the level of occupation, table 2 above shows that the sample consisted of 86 employees at a non-managerial position (55.8%), 22 supervisors (14.3%), 34 middle managers (22.1%), and 12 top managers (7.8%). These results are also shown in figure 2 below.

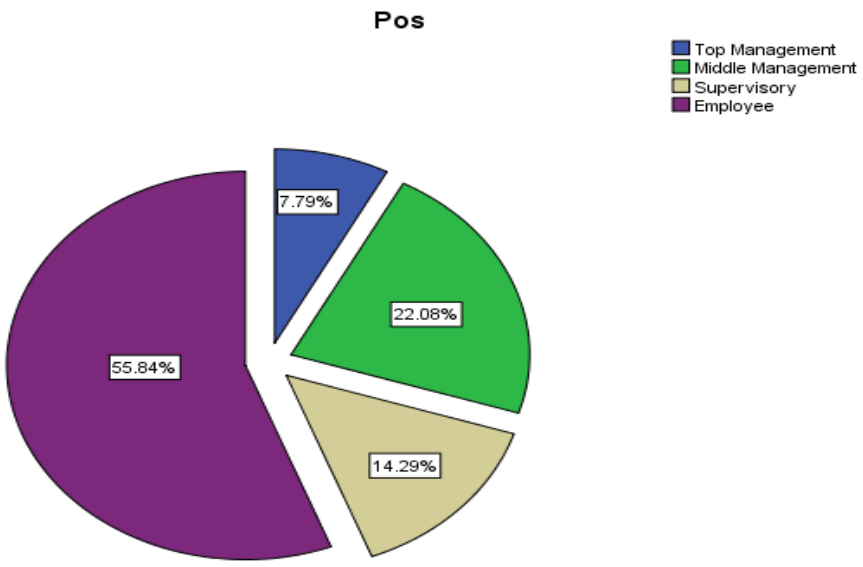


FIGURE 2: DISTRIBUTION OF POSITION

Figure 3 presents the results of the age distribution.

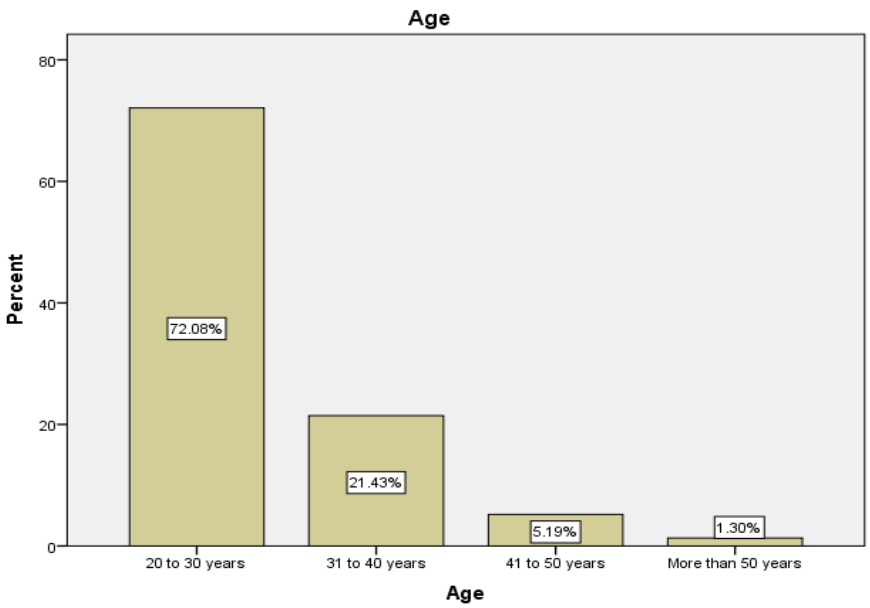


FIGURE 3: DISTRIBUTION OF AGE

The descriptive analysis for the ages of the 154 employees revealed that 111 are between the age of 20 and 30 years (72.1%), 33 have an age between 31 and 40

years (21.4%), 8 are between 41 and 50 years of age (5.2%), and 2 have an age above 50 years (1.3%). Table 3 below further presents the age distribution results.

TABLE 3: DISTRIBUTION OF AGE

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 to 30 years	111	72.1	72.1	72.1
	31 to 40 years	33	21.4	21.4	93.5
	41 to 50 years	8	5.2	5.2	98.7
	More than 50 years	2	1.3	1.3	100.0
	Total	154	100.0	100.0	

As for years of experience, presented in figure 4 and table 4, 55 of the respondents indicated that they were at their current for less than 3 years (35.7%), 46 between 3 and 5 years (29.9%), 30 between 6 and 10 years (19.5%), and 23 for more than 10 years (14.9%).

TABLE 4: DISTRIBUTION OF EXPERIENCE

Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 3 years	55	35.7	35.7	35.7
	3 to 5 years	46	29.9	29.9	65.6
	6 to 10 years	30	19.5	19.5	85.1
	More than 10 years	23	14.9	14.9	100.0
	Total	154	100.0	100.0	

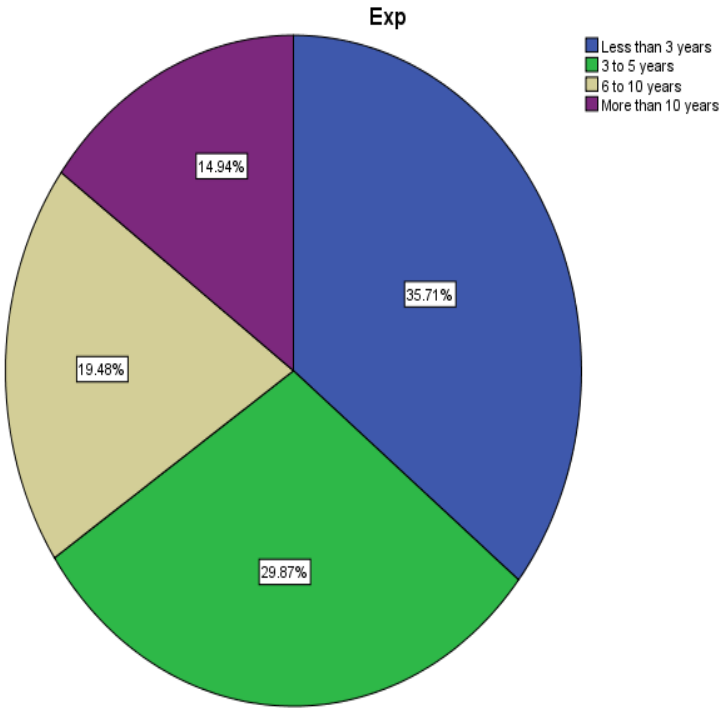


FIGURE4: DISTRIBUTION OF EXPERIENCE

Finally, the distribution of the region the company operates in is presented in figure 5 and table 5.

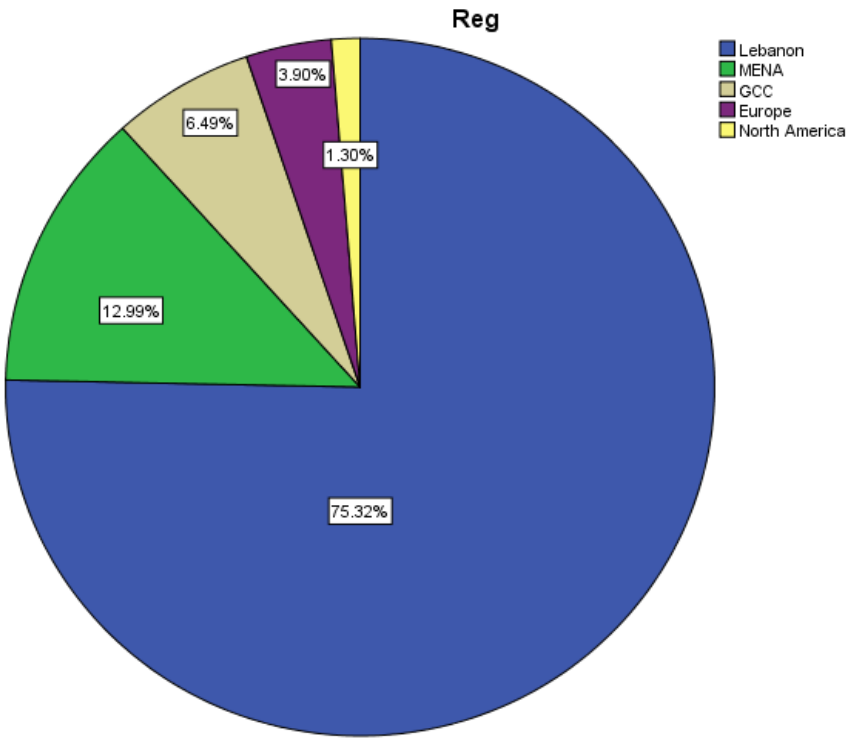


FIGURE 5: DISTRIBUTION OF REGION

The results indicate that 116 of the companies operate in Lebanon (75.3%), 20 in the MENA region (13%), 10 in the GCC region (6.5%), 6 in Europe (3.9%), and 2 in North America (1.3%).

TABLE 5: DISTRIBUTION OF REGION OF OPERATION

Region

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lebanon	116	75.3	75.3	75.3
	MENA	20	13.0	13.0	88.3
	GCC	10	6.5	6.5	94.8
	Europe	6	3.9	3.9	98.7
	North America	2	1.3	1.3	100.0
	Total	154	100.0	100.0	

5.2 Cross Tabulations and Chi-Square Tests

The cross tabulation of age with respect to occupation is presented in table 6.

TABLE 6: DISTRIBUTION OF AGE ACROSS JOB CATEGORIES

	20 to 30 years	**31 to 40 years**	**41 to 50 years**	**Higher than 50 years**
Non-managerial	50%	5.8%	0%	0%
Supervisory	8.4%	5.8%	0%	0%
Middle Management	13%	7.8%	1.3%	0%

Top Management	0.6%	1.9%	3.9%	1.3%
% Within Age (Total)	72.1%	21.4%	5.2%	1.3%

The above results show that 0.6% of the employees having an age between 20 and 30 years are in top management, 13% are in middle management, 8.4% are supervisors, and 50% are employees at a non-managerial position. As for the employees having an age between 31 and 40 years, 1.9% are in top management, 7.8% in middle management, 5.8% are supervisors, and 5.8% are employees. On the other hand, for employees having an age between 41 and 50 years, 3.9% are in top management and 1.3% are in middle management; whereas employees with an age higher than 50 years, work in top management positions (1.3%).

Table 7 shows the results of the cross tabulation of years of experience with respect to occupation.

TABLE 7: DISTRIBUTION OF EXPERIENCE ACROSS JOB CATEGORIES

	Less than 3 years	**3 to 5 years**	**6 to 10 years**	**Higher than 10 years**
Non-managerial	27.3%	20.8%	5.2%	2.6%
Supervisory	4.5%	2.6%	6.5%	0.6%
Middle Management	1.9%	5.2%	6.5%	8.4%
Top Management	1.9%	1.3%	1.3%	3.2%

% Within Experience (Total)	35.7%	29.9%	19.5%	14.9%

The results presented show that 1.9% of the employees having an experience less than 3 years are in top management, 1.9% are in middle management, 4.5% are supervisors, and 27.3% are employees are at a non-managerial position. As for the employees having an experience between 3 and 5 years, 1.3% are in top management, 5.2% in middle management, 2.6% are supervisors, and 20.8% are employees. On the other hand, for employees having an experience between 6 and 10 years, 1.3% are in top management, 6.5% are in middle management, 6.5% are supervisors, and 5.2% are employees are at a non-managerial position. For employees with experience higher than 10 years, 3.2% are in top management, 8.4% in middle management, 0.6% are supervisors, and 2.6% are employees are at a non-managerial position.

Furthermore, the results of cross tabulation of education with respect to occupation are presented in table 8.

TABLE 8: DISTRIBUTION OF EDUCATION ACROSS JOB CATEGORIES

	Undergraduate Degree	**Graduate Degree**
Non-managerial	7.1%	48.7%
Supervisory	2.6%	11.7%
Middle Management	3.2%	18.8%

Top Management	0%	7.8%
% Within Education (Total)	13%	87%

The results show that 3.2% of the employees having undergraduate degree are in middle management, 2.6% are supervisors, and 7.1% are employees are at a non-managerial position. As for the employees having a graduate degree, 7.8% are in top management, 18.8% in middle management, 11.7% are supervisors, and 48.7% are employees.

The cross tabulation of age and occupation can be used to test for evidence of differences between age categories with respect to job level. The following null and alternate hypotheses are stated as follows:

H_0: there is no relation between age and job categories

H_1: there is a relation between age and job categories

A chi-square test of independence was made to examine the relation between age and occupation. The relation between these variables was significant, $\chi^2(9, N = 154) = 99.268$, p-value = 0.000. The test provided strong evidence to support hypothesis H1.

The relationship between education and occupation is tested using the hypotheses:

H_0: there is no relation between education and occupation

H_1: there is a relation between education and occupation

The Chi-square test statistics is $\chi^2(3, N = 154) = 2.408$, p-value = 0.492. The test shows that there is no relation between education and occupation.

The relationship between years of experience and occupation is tested using the hypotheses:

H_0: there is no relation between experience and occupation

H_1: there is a relation between experience and occupation

The Chi-square test statistics is $\chi^2(9, N = 154) = 54.968$, p-value = 0.000. The test shows that there is a relation between experience and occupation.

5.3Regression Analysis

5.3.1 Notations

The 6 items from the survey that represent CSR towards stakeholders were given the notation CSRSH1 through CSRSH6. Moreover, the 6 items of CSR towards employees were given the notation of CSREM1 through CSREM6, and the 3 items of CSR towards customers were given the notation of CSRCU1 through CSRCU3. A summary of the notations for CSR aspects are shown in tables 9below.

TABLE 9: NOTATIONS OF CSR TOWARDS STAKEHOLDERS

CSR - Stakeholders	
CSRSH1	Our company participates to the activities which aim to protect and improve the quality of the natural environment
CSRSH2	Our company makes investment to create a better life for the future generations
CSRSH3	Our company implements special programs to minimize its negative impact on the natural environment
CSRSH4	Our company targets a sustainable growth which considers to the future generations
CSRSH5	Our company supports the non-governmental organizations working in the problematic areas
CSRSH6	Our company contributes to the campaigns and projects that promote the well-being of the society
CSR - Employees	
CSREM1	Our company encourages its employees to participate to the voluntarily activities
CSREM2	Our company policies encourage the employees to develop their skills and careers
CSREM3	The management of our company primarily concerns with employees' needs and wants
CSREM4	Our company implements flexible policies to provide a good work and life balance for its employees
CSREM5	The managerial decisions related with the employees are usually fair
CSREM6	Our company supports employees who want to acquire additional education
CSR - Customers	
CSRCU1	Our company protects consumer rights beyond the legal requirements
CSRCU2	Our company provides full and accurate information about its products to its customers
CSRCU3	Customer satisfaction is highly important for our company

Moreover, the current corporate performance items and previous 5 years performance notations are presented in tables 10 and 11 below, respectively.

TABLE 10: NOTATIONS OF CURRENT CORPORATE PERFORMANCE

Notation	**Corresponding Item**
SlGr	Sales Growth
MSGr	Market Share Growth
EmNoIn	Increase in number of Employee
ProfGr	Profitability Growth
ROA	Return on Assets
PMSl	Profit Margin on Sales
GrFmPro	Ability to increase growth through profits

TABLE 11: NOTATIONS OF PREVIOUS CORPORATE PERFORMANCE

Notation	**Corresponding Item**
SlGr5	Sales Growth
MSGr5	Market Share Growth
EmNoIn5	Increase in number of Employee
ProfGr5	Profitability Growth
ROA5	Return on Assets
PMSl5	Profit Margin on Sales
GrFmPro5	Ability to increase growth through profits

Furthermore, the notations for the bankruptcy risk subscales are presented in table 12 below. The 7 items of “competitiveness” subscale were denoted by COM1 through COM7.The 5 items of the “learning” subscale were denoted by LRN1 through LRN5.The 4 items of “marketing” subscale were denoted by MKT1 through MKT4. The 4 items of “management” subscale were denoted by MGT1 through MGT4. The 2 items of “planning” subscale were denoted by PLN1 through PLN2. The 5 items of “resources” subscale were denoted by RES1 through RES5.

TABLE 12: NOTATIONS OF BANKRUPTCY RISK SUBSCALES

Competitiveness	
COM1	Type of suppliers.
COM 2	The power of negotiating with the suppliers
COM 3	The degree of processing of the purchased products.
COM 4	Firm's flexibility on changing the environment
COM 5	Customer involvement
COM 6	The level of customer interaction and customization.
COM 7	Capacity to create competitive advantage
Learning	
LRN1	Collaborations with universities, with research centers, with other firms, etc.
LRN2	The degree of absorptive capability.
LRN3	Professionalism of the employees, their capacity of learning.
LRN4	Being an active part in the conferences, courses kept in its field
LRN5	Collective and cooperative learning
Marketing	
MKT1	After-sales services.
MKT2	Advertising capacity
MKT3	Presence on different markets
MKT4	Market analysis capacity
Management	
MGT1	Managerial capacity.
MGT2	Costs' management
MGT3	Risk management
MGT4	Project management.
Planning	
PLN1	Strategic planning.
PLN2	Defining firm's vision, mission, objectives, goals, etc.
Resources	
RES1	Degree of competitiveness of internal resources.
RES2	Amount of knowledge-based resources.
RES3	Ability to identify, develop, deploy and preserve particular resources – distinctive from its competitors.
RES4	Professionalism of the employees.
RES5	Motivational schemes.

5.3.2 Factor Analysis

First, the author conducted factor analysis on each subscale of CSR, bankruptcy risk, and performance.

Tables13, 14, 15, and 16 below show that all loading factors of CSR, current corporate performance, previous corporate performance, and bankruptcy risk subscales were well above the minimum threshold of 0.6.

TABLE 13: FACTOR ANALYSIS OF CSR

CSR towards Stakeholders	**Factor Loading**	**CSR towards Employees**	**Factor Loading**	**CSR towards Customers**	**Factor Loading**
CSRSH1	.799	CSREM1	.651	CSRCU1	.689
CSRSH2	.757	CSREM2	.759	CSRCU2	.839
CSRSH3	.871	CSREM3	.864	CSRCU3	.881
CSRSH4	.834	CSREM4	.749		
CSRSH5	.683	CSREM5	.828		
CSRSH6	.721	CSREM6	.716		

TABLE 14: FACTOR ANALYSIS OF CURRENT CORPORATE PERFORMANCE

Current Corporate Performance	**Factor Loading**
SlGr	.883
MSGr	.898
EmNoIn	.819
ProfGr	.916
ROA	.937
PMSl	.946
GrFmPro	.916

TABLE 15: FACTOR ANALYSIS OF PREVIOUS CORPORATE PERFORMANCE

Previous Corporate Performance	**Factor Loading**
SlGr5	.929
MSGr5	.928
EmNoIn5	.846
ProfGr5	.965
ROA5	.952
PMSl5	.945
GrFmPro5	.914

TABLE 16: FACTOR ANALYSIS OF BANKRUPTCY RISK SUBSCALES

Bankruptcy Risk	**Factor Loadings**
Competitiveness	
COM1	.681
COM 2	.808
COM 3	.832
COM 4	.784
COM 5	.786
COM 6	.854
COM 7	.783
Learning	
LRN1	.717
LRN2	.862
LRN3	.843

LRN4	.893
LRN5	.888
Marketing	
MKT1	.778
MKT2	.864
MKT3	.905
MKT4	.882
Management	
MGT1	.897
MGT2	.936
MGT3	.891
MGT4	.853
Planning	
PLN1	.936
PLN2	.936
Resources	
RES1	.875
RES2	.917
RES3	.916
RES4	.832
RES5	.766

5.3.3Reliability Test

Second, the reliability test was conducted for the studied variables. All Cronbach's alphas were well above the minimum required value of 0.7 and varied between 0.71 and 0.971, as shown in table 17 below.

TABLE 17: RELIABILITY TEST

Variable	Cronbach's Alpha
CSR	
CSRSH	.867
CSREM	.853
CSRCU	.723
Corporate Performance	
Current Corporate Performance	.961
Previous Corporate Performance	.971
Bankruptcy Risk	
COM	.690
LRN	.887
MKT	.878
MGT	.913
PLN	.858
RES	.907

Thus, the constructs used to measure CSR, corporate performance, and bankruptcy risks are reliable and can be used for further analysis.

5.3.4 Parceling

As the construct variables are of higher-order, multidimensional constructs, we used the parceling method to transform these constructs into a first-order latent factor construct, where single scores were created for each of the variables, CSR and bankruptcy risk. Table 18 below shows the parceling measures for the 2 independent variables.

TABLE 18: PARCELING MEASURMENTS

Variable	Parcel
CSR	
CSRSH	.833
CSREM	.872
CSRCU	.737
Bankruptcy Risk	
COM	.813
LRN	.799
MKT	.820
MGT	.860
PLN	.855
RES	.929

5.3.5Regression

The regression analysis was conducted using the SPSS statistical software. As for the mediating effects analysis, the “PROCESS Macro” option produced by A.F. Hayes was used.

First, the relationship between CSR and bankruptcy risk was studied. The results in table 19a below show that CSR significantly and negatively affects bankruptcy risk (F-value = 104.865, p-value = 0.000). Thus, CSR and bankruptcy risk are inversely related. Therefore, strong evidence found to support hypothesis H1, stating that there is a negative relationship between CSR and bankruptcy risk.

Table 19a:

Outcome: BKR

Model Summary

R	R-sq	MSE	F	df1	df2	p
.6389	.4082	.5956	104.8650	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0622	.0000	1.0000	-.1229	.1229
CSR	-.6389	.0624	-10.2404	.0000	-.7622	-.5157

Second, the relationship between CSR and corporate performance was examined. The results in table 19b show that CSR significantly and positively affects corporate performance (F-value = 25.3585, p-value = 0.000), signifying that CSR and corporate performance are directly related. These results support hypothesis H2, implying that there is a significant and positive relationship between CSR and corporate performance.

Table 19b:

```
Outcome: PERF


Model Summary
R       R-sq        MSE          F        df1        df2          p
.3781      .1430      .8627    25.3585     1.0000   152.0000   .0000


Model
        Coeff         se          t          p       LLCI       ULCI
constant.0000      .0748      .0000     1.0000     -.1479      .1479
CSR     .3781      .0751     5.0357      .0000      .2298      .5265
```

Furthermore, upon examining the mediating effects of corporate performance on the relationship between CSR and bankruptcy risk, results show that a negative andsignificant relationship exists between CSR, corporate performance, and bankruptcy risk (F-value = 117.21, p-value = 0.000), as presented in table 19c below, thus supporting hypothesis H3.

Table 19c:

```
Outcome: BKR


Model Summary
R       R-sq        MSE          F        df1        df2          p
.7799      .6082      .3970   117.2103     2.0000   151.0000   .0000


Model
        coeff         se          t          p       LLCI       ULCI
constant.0000      .0508      .0000     1.0000     -.1003      .1003
PERF   -.4830      .0550    -8.7791      .0000     -.5918     -.3743
```

CSR	-.4563	.0550	-8.2929	.0000	-.5650	-.3476

Summing up the results, 3 out of 4 conditions for mediation were met. First, the significant relationship between the dependent and independent variables, i.e. between CSR and bankruptcy risk, is confirmed (H1). Second, there exists a significant association between the independent variable and the mediating one, i.e. between CSR and corporate performance (H2). And third, there is a significant correlation between the mediator and the dependent variable in the presence of the independent variable (H3), i.e. between corporate performance, bankruptcy risk, and CSR. On the other hand, the fourth condition to confirm the insignificance of the association between the dependent variable and the independent variable in the presence of the mediator was not met. However, the reduction in the effect of CSR on bankruptcy risk in the presence of corporate performance signifies that corporate performance partially mediated the relationship, and not fully.

Further analysis was conducted to examine the effects of the change in performance on the relationship between CSR and bankruptcy risk. The results were the same as above (shown in table 20). CSR and bankruptcy risk are significantly and negatively related, CSR and change in performance are significantly and positively related, in addition to the significant and negative relationship between CSR and bankruptcy risk in the presence on the change in performance. These results indicate that change in performance partially mediates the relationship between CSR and bankruptcy risk.

Table 20:

Outcome: BKR

Model Summary

R	R-sq	MSE	F	df1	df2	p
.6389	.4082	.5956	101.0989	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0626	.0000	1.0000	-.1237	.1237
CSR	-.6389	.0635	-10.0548	.0000	-.7645	-.5134

Outcome: CPERF

Model Summary

R	R-sq	MSE	F	df1	df2	p
.2491	.0621	.9441	9.6542	1.0000	152.0000	.0023

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0788	.0000	1.0000	-.1557	.1557
CSR	.2491	.0802	3.1071	.0023	.0907	.4075

Outcome: BKR

Model Summary

R	R-sq	MSE	F	df1	df2	p
.6716	.4510	.5562	48.3246	2.0000	151.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0611	.0000	1.0000	-.1207	.1207
CPERF	-.2136	.0829	-2.5772	.0109	-.3774	-.0498
CSR	-.5857	.0719	-8.1472	.0000	-.7278	-.4437

Moving deeper in analyzing the relationship between CSR and bankruptcy risk, analysis on which aspect of CSR mostly affected bankruptcy risk, and which aspect of bankruptcy risk was mostly affected by CSR. Table 21 below presents the relationship between CSR towards stakeholders, employees, and customers, and bankruptcy risk.

Table 21:

Outcome: BKR

Model Summary

R	R-sq	MSE	F	df1	df2	p
.6288	.3954	.6086	99.3979	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0629	.0000	1.0000	-.1242	.1242
CSRSTK	-.6288	.0631	-9.9698	.0000	-.7534	-.5042

Outcome: BKR

Model Summary

R	R-sq	MSE	F	df1	df2	p
.5122	.2624	.7425	54.0709	1.0000	152.0000	.0000

```
Model
        coeff         se          t          p       LLCI       ULCI
constant.0000      .0694      .0000     1.0000     -.1372      .1372
CSREMP -.5122      .0697    -7.3533      .0000     -.6499     -.3746


Outcome: BKR


Model Summary
R       R-sq        MSE          F        df1        df2          p
.4145      .1718      .8336    31.5338     1.0000   152.0000   .0000


Model
        coeff         se          t          p       LLCI       ULCI
constant.0000      .0736      .0000     1.0000     -.1454      .1454
CSRCU  -.4145      .0738    -5.6155      .0000     -.5603     -.2687
```

The above results that all aspects of CSR significantly and negatively affects bankruptcy risk (P-value = 0.000 < 0.05). Additionally, it is found that CSR towards shareholders has the highest effects on bankruptcy risk. Furthermore, further research examined which aspect of bankruptcy risk was affected the most by CSR. Table 22 below presents the results.

Table 21:

```
Outcome: COMP


Model Summary
R       R-sq        MSE          F        df1        df2          p
.4563      .2082      .7970    39.9746     1.0000   152.0000   .0000
```

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0719	.0000	1.0000	-.1421	.1421
CSR	-.4563	.0722	-6.3225	.0000	-.5989	-.3137

Outcome: LRN

Model Summary

R	R-sq	MSE	F	df1	df2	p
.6265	.3924	.6116	98.1826	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0630	.0000	1.0000	-.1245	.1245
CSR	-.6265	.0632	-9.9087	.0000	-.7514	-.5015

Outcome: MKT

Model Summary

R	R-sq	MSE	F	df1	df2	p
.4579	.2097	.7955	40.3204	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0719	.0000	1.0000	-.1420	.1420
CSR	-.4579	.0721	-6.3498	.0000	-.6003	-.3154

Outcome: MGT

Model Summary

R	R-sq	MSE	F	df1	df2	p
.5268	.2775	.7273	58.3706	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0687	.0000	1.0000	-.1358	.1358
CSR	-.5268	.0689	-7.6401	.0000	-.6630	-.3905

Outcome: PLN

Model Summary

R	R-sq	MSE	F	df1	df2	p
.5802	.3366	.6677	77.1281	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.0000	.0658	.0000	1.0000	-.1301	.1301
CSR	-.5802	.0661	-8.7823	.0000	-.7107	-.4497

Outcome: RES

Model Summary

R	R-sq	MSE	F	df1	df2	p
.5972	.3567	.6476	84.2739	1.0000	152.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI

constant	.0000	.0648	.0000	1.0000	-.1281	.1281
CSR	-.5972	.0651	-9.1801	.0000	-.7258	-.4687

The above results also show that CSR has significant and negative effects on all aspects of bankruptcy risk. However, the learning aspect is affected the most.

Chapter Six

Discussion and Conclusion

It can be concluded that an employee's position at work is defined by age and years of experience, with no significant relation between education and the level of position the employee holds.

CSR is negatively and significantly related to bankruptcy risk. This supports the main hypothesis, which reflects the importance of the role that an organization's initiatives have in reducing firm's risk of going bankrupt. By investing in CSR activities, a company increases its responsibility for issues that are related to the stakeholders and investors. Also, with proper corporate social responsibility systems set in place, investors are able to notice that the company has protected itself from the possible risks, such as bankruptcy. Through effective CSR, firms ensure that all the key stakeholders are furnished with up to date information. Through such communication, any risk of insolvency is identified within such organizations.

Furthermore, the results also indicate a significant and negative relationship between corporate performance and bankruptcy risk. This comes in line with the fact that firms which efficiently utilize their resources end up increasing its return on assets. As a result, profitability is enhanced. More so, efficient use of resources implies that the organization does not have to engage in massive borrowing. The income it receives from operations may end up being used to increase the volume of its assets. As a result, the organization financial stability is enhanced and it may not need to engage in extensive borrowing. This process results to a scenario where the risk of falling into bankruptcy by such an organization is reduced.

Moreover, the results stem from the customers perceiving the firms as actively involved in social issues and community terms, which leads them to become more loyal to the organization, thus increasing the firm's performance. These results support our findings and the significant and positive relationship between CSR and performance. Since, CSR brings about financial care and controlled growth, good governance, and an increased possibility of strategic alliances. Where this motivates other firms that have shared aims to join forces with them for the promotion of efficiency. Additionally, organizational efficiency has been proven to improve financial performance and productivity.

The results of the mediation analysis reveal that although CSR reduces bankruptcy risk, corporate performance and the change in performance partially mediates the process. This conclusion comes in line with the fact that firms that engage in CSR activities are more likely to make positive investment decisions that can improve the companies' sustainability. Thus it is less likely that a firm may experience financial difficulties that can lead to bankruptcy.

Moreover, CSR contributes to increase a firm's efficiency through the stated above factors that build strong corporate culture, fair valuation of human capital, and job satisfaction, which in turn increase the company's efficiency and effectiveness. Hence increasing productivity and financial performance that leads to minimized bankruptcy risk.

The analysis also revealed that CSR towards stakeholders had the greatest effects on bankruptcy risk. This is due to the fact that CSR towards stakeholders benefits the company on a long run pace. The needs for shareholders need to be met and they should be satisfied rather than relying extensively on profit maximization. The primary concern of the organization should be on realizing the value for

shareholders or maximizing the shareholder's wealth. Thus, by investing in CSR activities, a company helps to increase its accountability for issues that relate to the stakeholders. Without these activities, the company is likely to undergo some long-term unperceived setbacks in the future hence the increased risk on the investment of the company. However, with proper corporate social responsibility techniques in place, the investors can be able to see that the company has protected itself from the possible risks.

Moreover, it was found that the learning aspect of bankruptcy risk was the most affected by CSR. The inference is that a firm that has sound social responsibility is founded on excellent employee as well as customer satisfaction and these elements are main factors in developing high company value in a market (Turker, 2009). A firm that engages in CSR is hence highly likely to achieve high corporate performance and operate sustainably in the market without running bankrupt. Moreover, the compliance with the policies of CSR has been found to have a positive effect on the efficiency, effectiveness, productivity, and innovation of a company. Furthermore, it helps to build a strong corporate culture that is grounded on strong beliefs and values. Such a culture in an organization promotes employee satisfaction, hence increasing productivity. CSR brings about the fair valuation of human capital. In a firm that has a good corporate social responsibility, the contribution of all employees is promoted and appreciated. This contributes to job satisfaction.

The limitations of the study can be a kick start for further research. For example, further research can be conducted using a bigger sample size. Also, further research can take into consideration other factors, other than performance, that contribute to CSR in reducing bankruptcy risk and mediate that relationship, such as

credit ratings and/or the changes in credit ratings, factors related to efficiency levels, and changes in the levels of investments. Moreover, this thesis didn't take into consideration the type of industry/sector of the companies. In addition, financial performance was assessed based on survey, and not using financial ratios. This is due to the fact that most companies are family owned and elect not to provide sufficient information. Furthermore, little number of the companies are listed on the Beirut Stock Exchange. Finally, the thesis examined the relationships among the studied variables based on the perception of the employees.

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Appendix A

Survey Questionnaire Sample

Consent to participate in a Survey/Questionnaire

"The Relationship between Corporate Social Responsibility and Bankruptcy Risk Mediated by Corporate Performance"

You are kindly asked to complete this short questionnaire in order to complete a research paper carried out by Mr. Mohamad Safieddine. The aim of this research is to investigate the mediating effect of Corporate Performance on the relationship between Corporate Social Responsibility and Bankruptcy Risk. Your participation in this study is voluntary. All information is confidential and your name is not required. If you choose to participate, please complete the survey as truthfully as you can. Your assistance is greatly appreciated.

By continuing with the questionnaire / survey, you agree with the following statements:

1. I have been given sufficient information about this research project.

2. I understand that my answers will not be released to anyone and my identity will remain anonymous. My name will not be written on the questionnaire nor be kept in any other records.

3. I understand that all responses I provide for this study will remain confidential. When the results of the study are reported, I will not be identified by name or any other information that could be used to infer my identity. Only researchers will have access to view any data collected during this research however data cannot be linked to me.

4. I understand that I may withdraw from this research any time I wish and that I have the right to skip any question I don’t want to answer.

5. I understand that my refusal to participate will not result in any penalty or loss of benefits to which I otherwise am entitled to.

6. I have been informed that the research abides by all commonly acknowledged ethical codes and that the research project has been reviewed and approved by the Institutional Review Board at the Lebanese American University

7. I understand that if I have any additional questions, I can ask the research team listed below.

8. I have read and understood all statements on this form.

9. I voluntarily agree to take part in this research project by completing the following survey.

If you have any questions, you may contact:

Mr. Mohamad Safieddine mohamadali.safieddine@lau.edu +961 70 703 608

Dr. Abdul-Nasser El-Kassar abdulnasser.kassar@lau.edu.lb +961 1 786 456 ext. 1189

If you have any questions about your rights as a participant in this study, or you want to talk to someone outside the research, please contact the:

IRB Office,

Lebanese American University

3rd Floor, Dorm A, Byblos Campus

Tel: 00 961 1 786456 ext. (2546)

The aim of this research is to examine the relationship between corporate social responsibility and bankruptcy risk mediated by corporate performance. All data and measurements obtained from this research study will be stored confidentially. Only researchers will, have access to view any data collected during this research.

I. Demographics

- Age: a) Less than 20 years b) 20 to 30 years
  c) 31 to 40 years d) 41 to 50 years
  e) More than 50 years
- Job Position: a) Top Management b) Middle Management
  c) Supervisory d) Employee
- Length of Time being Employed: a) Less than 3 years b) 3 to 5 years
  c) 6 to 10 years d) More than 10 years
- Educational Level: a) High School b) Undergraduate University Degree
  c) Graduate Degree
- Professional Certificate (if applicable): a) N/A b) CPA c) CFA
  d) CMA e) CIA
- Region: a) Lebanon b) Egypt c) MENA d) GCC
  e) Europe f) North America g) Others

II. Please indicate your company's level of CSR engagement in terms of (tick in the appropriate box):

5-point scale: 1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree

		1	2	3	4	5
CSR - Stakeholders						
1	Our company participates to the activities which aim to protect and improve the quality of the natural environment					
2	Our company makes investment to create a better life for the future generations					
3	Our company implements special programs to minimize its negative impact on the natural environment					
4	Our company targets a sustainable growth which considers to the future generations					
5	Our company supports the non-governmental organizations working in the problematic areas					
6	Our company contributes to the campaigns and projects that promote the well-being of the society					
CSR - Employees						
7	Our company encourages its employees to participate to the voluntarily activities					
8	Our company policies encourage the employees to develop their skills and careers					
9	The management of our company primarily concerns with employees' needs and wants					
10	Our company implements flexible policies to provide a good work and life balance for its employees					
11	The managerial decisions related with the employees are usually fair					
12	Our company supports employees who want to acquire additional education					
CSR - Customers						
13	Our company protects consumer rights beyond the legal requirements					
14	Our company provides full and accurate information about its products to its customers					
15	Customer satisfaction is highly important for our company					

III. Please indicate your company's past 5 years level of performance in terms of (tick in the appropriate box):

5 point scale: 1=Poor, 2=Fair, 3=Good, 4=Very Good, 5=Excellent

		1	2	3	4	5
Past performance:						
1	Sales Growth					
2	Market Share Growth					
3	Increase in number of Employee					

4	Profitability Growth					
5	Return on Assets					
6	Profit Margin on Sales					
7	Ability to increase growth through profits					

IV. Please indicate your company's current level of performance compared to the past 5 years performance (tick in the appropriate box):

5-point scale: 1=Much Worse, 2=Worse, 3=same, 4=Higher, 5=Much Higher

		1	2	3	4	5
Current performance:						
1	Sales Growth					
2	Market Share Growth					
3	Increase in number of Employee					
4	Profitability Growth					
5	Return on Assets					
6	Profit Margin on Sales					
7	Ability to increase growth through profits					

V. Please indicate your company's competencies in terms of (tick in the appropriate box):

5 point scale: 1=Excellent, 2=Very Good, 3=Good, 4=Fair, 5=Poor

		1	2	3	4	5
Competitiveness						
1	Type of suppliers.					
2	The power of negotiating with the suppliers					

3	The degree of processing of the purchased products.					
4	Firm's flexibility on changing the environment					
5	Customer involvement					
6	The level of customer interaction and customization.					
7	Capacity to create competitive advantage					
Learning						
8	Collaborations with universities, with research centers, with other firms, etc.					
9	The degree of absorptive capability.					
10	Professionalism of the employees, their capacity of learning.					
11	Being an active part in the conferences, courses kept in its field					
12	Collective and cooperative learning					
Marketing						
13	After-sales services.					
14	Advertising capacity					
15	Presence on different markets					
16	Market analysis capacity					
Management						
17	Managerial capacity.					
18	Costs' management					
19	Risk management					
20	Project management.					
Planning						
21	Strategic planning.					
22	Defining firm's vision, mission, objectives, goals, etc.					
Resources						
23	Degree of competitiveness of internal resources.					
24	Amount of knowledge-based resources.					
25	Ability to identify, develop, deploy and preserve particular resources – distinctive from its competitors.					
26	Professionalism of the employees.					
27	Motivational schemes.					