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**The Impact of Strategic Corporate Social Responsibility on Financial Performance: The Mediating Role of Sustainability Balanced Scorecard Empirical Study on Egyptian Top 30 EGX- index Strategic management area**

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**Abstract**

The purpose of this paper is to investigate whether strategic corporate social responsibility (SCSR) based on social commitment, operational excellence, and social formalization has a positive impact on financial performance (FP). Particularly this paper focuses on the mediating effect of sustainability balanced scorecard (SBSC) in the relationship between the strategic corporate social responsibility and financial performance. The paper investigated Egyptian top 30 enterprises that have been listed in the Egyptian EGX-ESG, index (2017) according to their compliance with the new EGX index regulations regarding social responsibility, corporate governance and sustainability governance. A self-administered questionnaire used to collect data from the top managers in the participating enterprises. The hypotheses have been tested using the path analysis technique

The statistical results initially demonstrated that (SCSR) based on social commitment, operational excellence, and social formalization has a positive impact on the FP through the SBSC, thus (SBSC) mediate the relation between SCSR and financial performance. Also based on the statistical results, only one dimension of SCSR (social formalization) has a positive direct impact on financial performance, whereas the direct impact of the other two dimensions (social commitment and operational excellence) is rejected. The paper argues for the importance of SBSC in enhancing the effect of SCSR on financial performance.

**Keywords:** strategic corporate social responsibility, social commitment, operational excellence, social formalization, sustainability balanced scorecard, financial performance.

## ملخص البحث

استراتيجى بمكوناتها الثلاثة ( الإلتزام - التفوق التشغيلى- التوثيق ) على الأداء المالى من خلال توسط بطاقة الأداء المتوازن المستدامة . وبالتالي تأكد الدور الوسيط لبطاقة الأداء المتوازن المستدامة فى العلاقة بين المسئولية الاجتماعية الشاملة من منظور استراتيجى والأداء المالى. وكما أكدّت النتائج الإحصائية على وجود تأثير إيجابى معنوى مباشر للبعد الخاص بالتوثيق على الأداء المالى، بينما لم يثبت وجود تأثير معنوى مباشر لبعدين ( الإلتزام- التفوق التشغيلى) على الأداء المالى. يسعى البحث إلى التأكيد على أهمية بطاقة الأداء المتوازن المستدامة كوسيط لتعظيم أثر المسئولية الاجتماعية من منظور الاستراتيجى على الأداء المالى بمنظمات الأعمال.

**المصطلحات الرئيسية:**المسئولية الاجتماعية الشاملة من منظور الاستراتيجية -الإلتزام - التفوق التشغيلى- التوثيق -بطاقة الأداء المتوازن المستدامة-الأداء المالى.

يهدف البحث إلى دراسة أثر المسئولية الاجتماعية الشاملة من منظور استراتيجى وفقاً لمكوناتها الثلاثة ( الإلتزام - التفوق التشغيلى- التوثيق ) على الأداء المالى وذلك بصورة مباشرة أو بصورة غير مباشرة بتوسط بطاقة الأداء المتوازن المستدامة- sustainability balanced scor- ecard (SBSC) . تمثل مجتمع البحث فى الشركات المصرية المسجلة وفقاً لمؤشر سوق المال المصرى (EGX-ESG) وعددها ( ٣٠ ) شركة وذلك لتوافقها مع المعايير المحددة فيما يتعلق بممارسات المسئولية الاجتماعية والحوكمة الشاملة والاستدامة الشاملة. وقد تم الاعتماد فى جمع البيانات على تصميم قائمة استقصاء تم توزيعها على المديرين العاملين فى الشركات محل البحث باستخدام العينة الحرجة (Critical case sampling) وذلك لضمان مشاركتهم فى أنشطة ترتبط بالمسئولية الاجتماعية. وقد تم اختبار فروض البحث باستخدام أسلوب تحليل المسار. (path analysis technique) ، وقد اظهرت النتائج الإحصائية وجود تأثير ايجابى معنوى للمسئولية الاجتماعية الشاملة من منظور

## 1.Introduction

Currently corporations are more concerned with corporate social responsibility in responding to global tendency (Halme, Roome, &Dobers, 2009). Both companies and researchers permanently seek ways to approach corporate social initiatives with the strategic perspective (eg.Husted& Allen,2001, McWilliams & Siegel 2001, Porter & Kramer 2006, Pearce &Doh 2005, Husted & Salazar, 2006). The process of integration CSR into corporate strategy represents a major challenge for managers .Scholars have widely investigated the topic and have proposed several frameworks for this process such as the corporate formalization of CSR activities which introduced by (Porter and Kramer, 2006) and introduction of external accountability tools which presented by (eg.Dentchev, 2005,Waddock& Bowell, 2007). Also a well-structured communication of CSR initiatives and adoption of certified management systems have been described as key steps in the integration process (eg.Sharp&Zaidman,2009,Perrini&Min oja, 2008).in this context Burke and Logsdon (1996 ) introduce “strategic CSR” concept as the CSR that "yields substantial business-related benefits to firms, particularly by supporting the core business activities". According to the authors only specific components of CSR could improve firm’s FP. Porter and Kramer (2006) suggest that companies should evolve from the cosmetic 'approach to CSR that is characterized by a high level of formalization but totally isolated from a firm core business

towards the strategic approach that is characterized by a higher implementation of few CSR initiatives that strictly correlated to the core business .The strategic approach focuses only on CSR initiatives that are able to differentiate the firm from competitors and delivering benefits to both company and the broader society.

On the other hand, there has been vigorous debate over the components of SCSR that could enhance firm value and financial performance (Carroll &S-habana, 2010). Also the correlation between SCSR and FP has been studied deeply from different perspectives. Several scholars confirmed the positive correlation between SCSR and FP (eg. Kang & Liu, 2013,Orlitzky et al., 2003, Oeyono et al., 2011) ,while others concluded the negative or no correlation (eg. Wagner et al., 2002; Teoh et al., 1999,McWilliams & Siegel,2000,Aras et al., 2010). Many mediating variables are extracted in examining SCSR–FP relationship such as a reputation, customer satisfaction, productivity and employee motivation (Flanagan & O’Shaughnessy, 2005 ,Surroca et al., 2010). Galbreath and Shum (2012) argued a deep expansion of study the effect of moderating and mediating variables in the SCSR–FP relationship. Recently sustainability balanced scorecard (SBS-C) has been emphasized as a strategic tool that can bridge the gap between financial perspective and strategic social responsibility perspective (eg.Bieker&Waxenberger,2002, Woerd& Brink, 2004).

Depending on the literature on the concept and the aspects of SCSR, social commitment, operational excellence and social formalization extrapolated as the most important dimensions of SCSR. The three key components could affect directly on financial performance and in directly through SBSC (eg. Burke & L-ogsdon 1996, Husted & Allen 2007, 2009,2011, Porter & Kramer, 2006).

Considering the mediating variables to the SCSR–FP relationship, sustainability balanced scorecard is especially highlighted as a strategic tool that could ensure the successful integration of social initiatives in corporate strategy which lead to improved financial performance (eg.Figgeet al., 2002, Bieker,at.-al,2002, Krause, O, 2003).

Furthermore, this research has built on the literature that investigated the CSR practices in the Egyptian context (eg.Mohn& Eissemlatter 2007,Obalola et al, 2009, El Hebeishy, 2011, Darrag,& Crowther,2017).According to relevant literature, CRS’ practices in Egypt is characterized with a high level of vagueness and discrepancy. Also absence of strategic approach is significantly observed. Darrag and Crowther (2017) call for urgent need to adopt the strategic perspective in practicing the CSR activities rather than religious and philanthropic perspective. The strategic perspective is largely based on a clear identification of CSR concept and practices and a clear understanding of CSR goals. The Successful Communications with stakeholders and the disclosure practices also have been identified as critical determinants of strategic CSR. The authors also enhanced the importance of CSR’ assessment on firm performance.

This research was conducted in the setting of the Egyptian top 30 EGX-ESG index . According to the Egyptian Capital Market (EGX) all large-sized enterprises (LEs) since (2006) have to approach CSR activities by addressing EGX Enlisting regulations and Requirements considering disclosures, transparency and governance. Critical case sampling was applied to identify the relevant managers who actually participated in CSR activities, be they ( CEO-CSR managers, PR managers, MRKT managers and senior managers).

The research initially confirms the positive correlation between SCSR based on social commitment, operational excellence, and social formalization and sustainability balanced scorecard. The paper further demonstrates how SCSR’s components (social commitment, social operational excellence and social formalization) could indirectly enhance financial performance through the sustainability balanced scorecard. This result primarily highlights the importance of sustainability balanced scorecard as a mediating variable in enhancing SCSR–FP relationship. The research findings present several implications in both SCSR–FP literature and sustainability balanced scorecard-FP literature in the developing countries context.

The relevant literature will be reviewed and hypotheses will be derived in section 2.in Section 3, Model specifications will be presented, the research methodology stated in section 4, the results of which are concluded in Section 5. Section 6 includes discussions followed by a conclusion, limitations and future research reported in section 7.

## **2.Literature review and hypotheses**

## **2.1 The strategic corporate social responsibility components**

Burke and Logsdon (1996 ) introduced “strategic CSR” concept as the CSR that “yields substantial business-related benefits to a firm, particularly by supporting core business activities” .The authors subdivide CSR into five elements suggesting that only some specific aspects of CSR could enhance firm’s FP. First, Centrality which refers to the ability of the firm to improve product innovation through the social initiatives. Second, proactivity which is emphasized by the ability to Anticipate the changes in social context that could present competitive opportunities .third ,voluntarism which highlights the level of Participation in social actions beyond that demanded by law. Fourth, appropriability that is defined as the ability to leverage the CSR initiatives which could generate significant economic benefits. fifth, visibility that is highly concerned with raising the stakeholders awareness of CSR’s value added .Porter and Kramer (2006) suggest that companies should evolve from the cosmetic approach to CSR that is characterized by a high level of formalization towards the operational approach that is characterized by a higher integration of CSR into corporate strategy.

The operational approach includes two perspectives: responsive and strategic. The responsive approach to CSR implies reducing the negative impacts of the company’s value chain activities on the broader environment. The strategic approach emphasizes the implementation of few CSR initiatives which strictly correlated to core business and having the ability to differentiate the firm

from competitors and delivering benefits to both the company and the broader society.

On this conceptual ground, There has been a great deal of studies over the concept and components of strategic corporate social responsibility (SCSR).- Husted and Allen (2001) argue that, SCSR is basically depending on the higher synergy between strategy, leadership and excellence. According to the authors, at the top there is business strategy that embraces corporate responsibility at its heart. In the middle, learning about different stakeholders should be considered. At the bottom left leadership that drives innovation considering corporate responsibility and company’s core strategy. On the right is operational excellence. Lubin and Esty (2010) consider five key areas in which companies must change in order to reach the ‘winner’ state of the ‘ecopremium’ of an integrated CSR strategy first, leadership that links the sustainability strategy with initiatives and outcomes, and develops shared goals with all stakeholders. second, systematizing methods and modes by using specialized tools (e.g., scenario planning, reporting, new certifications and standards. third, the higher alignment between strategy and core business. fourth, an integrated management system through the Shared accountability .fin-ally, performance evaluation and communications.

**Drawing on the literature above, three key components of SCSR can be extrapolated are :**

- 1-Socialcommitment**
- 2-operational excellence**
- 3-social formalization:**

And they will be discussed based on relevant literature as following:

**2/1/1. Social commitment**

Social commitment as a significant component of SCSR refers to clearly stated explicit and assessable goals for each CSR area which derived from stakeholders needs (Husted & Allen 2006, Maon et al, 2008). To enhance social commitment, Social corporate strategy needs to be associated to firm 's internal resources and ideologies. In addition, the sense of Voluntarism in practicing CSR is considered as important element. Lubin and Esty(2010) highlights the role of leadership that relate sustainability strategy with strategic initiatives and outcomes. Furthermore, top management's values which embrace CSR practices could work as a powerful motive to act socially responsibly changes (Pearce&Doh 2005). In this line, "socio efficiency approach suggested as mean of learning which could be adopted to raise employees 's consciousness and feeling about the importance of ethical aspects .Also training programs and internal forum discussions work as leading indicators in this area (Bieker&Waxenberge,2002).

### **2/1/2.Operational excellence**

Husted and Allen, (2001) define Operational excellence as "the closeness of CSR initiatives to the company's core business". Lubin and Esty, (2010) argue that organization should relate corporate strategy to social initiatives and make efficient redeployment of resources in order to maximize Operational excellence. The alignment between social initiatives and firm capabilities and resources is highly consistent with the concept of centrality which introduced by Burke and Logsdon (1996 ), as the firm's ability to manage the portfolio of resources and assets with social perspective. In this context, Porter and Kramer (2006) divide social issues into three cate-

gories: first, generic social issues that are important to society but have no effect on firm's competitiveness. Second Value chain social impact which includes social issues that are significantly affected by the company regular activities. Third ,The social dimension of competitive context which emphasize the social initiatives that significantly affect the direction and competitiveness of company in the location it operates.

Operational excellence component is basically concerned with the higher integration between social initiatives and firm competitiveness. In this context (Dyllick et al. 1997, Gminder et al.2002) suggested five basic types of social and sustainability strategies regarding competitiveness context. First, Strategy "safe" aims at reducing and managing risks in order to secure existing markets in areas such as poverty, biotechnology and climate change. Second ,Strategy credible" it is tackling issues of image and reputation as a valuable asset and enables businesses to satisfy all stakeholders. (Dyllick et al. 1997; Gminder&Bieker,2002).third, Strategy "efficient" "efficiency". it has successfully helped to reduce costs by achieving material efficiency and increasing productivity- (Wackernagel& Rees 1996, Dyllick&Hockerts, 2002, Schmidheiny&Zorraquin 1992) .fourth, Strategy "innovative" it implies Environmental and social impacts that frequently offer an opportunity for differentiating companies' products and providing sustainable advantages in the production. finally, Strategy "transformative" , it calls for institutional changes within human needs, politics as means of transformation of existing or creating of new markets (Gminder et al,2002).

### **2/1/3.social formalization**

Social formalization as a basic component of SCSR is highly reflected in the level of formalization of social initiatives in a company. Many tools and standards suggested in this area such as existence of a committee or a permanent organizational unit responsible of CSR activities (Maon et al, 2009), adoption of ethical codes, value statements and the inclusion of a social aspect in the company mission statement (Perrini&Minoja 2008). Also the number of international social/environmental certifications obtained by company such As ISO14001 and EMAS for the environmental management, ISO9001 for quality management and SA8000 for HR related issues viewed as a significant proxy for social formalization (eg.Waddock&Bodwell, 2007 Russo&Tencati,2009). In addition, the publication of social reports, and the membership to the national/international/industry institutions should be considered as social formalization standards (eg.Perrini&Minoja, 2008 ,Perriniat.al, 2006,Porter & Kramer, 2006, Fowler & Hope, 2007).(Figge et al, 2002) suggests Sustainability Balanced Scorecard (SBSC) as critical strategic tool for integrating social responsibility in corporate strategy and avoiding more traditional corporate reactions.

## **2/2.Sustainability balanced Score card**

The first generation of the balanced score card introduced by Kaplan and Norton (1992) as a measurement tool to evaluate financial and non-financial aspects of strategies. The most important elements of non financial dimension include customer satisfaction, internal processes, and learning process which support the successful execution of corporate strategies. In attempting to address

many critical areas, additional perspectives suggested and added to the original balanced scorecard (Wisner, 2001, Figge et al., 2002, Wagner, 2001.) Sustainability was one of such recommended areas as an important element of firm's strategy and competitive advantage (Epstein, 1996, Kaplan & Norton, 1996). Corporate sustainability includes three dimensions:ecological, social and economic.(Biekeret al.2001,LeónMunoz,&Chalmeta,2010)

Incorporating environmental and social goals into original balanced scorecard resulted in creating sustainability balanced scorecard(Figge et al., 2002; Wagner, 2010) or green balanced scorecard (Lansiluoto&J-arvenpaa, 2008).

There have been three possibilities in integrating environmental and social aspects in management system proposed by(Figge,at.al,2001,Epstein,1996)

First, both environmental and social elements can be reflected in the four basic dimensions of BSC. Second, separate dimension can be included to deal with environmental and social initiatives (non-market perspective). Third, the development of a specific and independent environmental and social scorecard.Accordingto(Bieker,2001)the method of integration depends on type of strategy pursued by organization in the sustainability area .The relevance of market perspective as a fifth component to SBSC depends on the impact of environmental or social aspects in business success. In this context Kramer (2009) suggest that, six-perspective BSCSD model is more Transformative type of sustainability. It pays significant attention to employees and their satisfaction with job and operations. Inclusion of employees perspective into BSCSD could leads to successful implementation of

sustainable development within organization.

In order to develop well-designed SBSC, critical elements should be addressed including: Corporate vision/mission/objectives, sustainability strategies, Identification of causal relationships, Integration of sustainability into the key perspectives,(financial, customer, processes, learning), Definition of measures, and the Integration into core management system) (Bieker 2001). SBSC enhances the transparency of the potential social actions which enable firms to improve economic success and highlight the causalities between economical and social dimensions (Bieker&Waxenberger, 2002).To determine the key perspectives of SBSC, strategic relevance of stakeholders needs have to be checked. (Figge et al., 2002) argued that , sustainability balanced scorecard is best developed through a three-step process, First, is identifying the relevant business unit regarding its opportunity to improve sustainability outcomes .Second, is identifying the environmental and social issues of the business unit. Third, is about highlighting the relations between social issues and business unit's strategy(strategic relevance).

### **2/3. Financial performance**

There has been continuing debate over how organizations could successfully measure their financial performance. Krausz,(1996) suggests four categories to measure financial, performance including accounting measures, market measures, measures of risk, and other firms specific characteristics . the most frequently used appear to be accounting measures which includes different key ratios calculated based on financial statements and market meas-

ures which based on market data, such as the stock price.

In tracing the relation between social initiatives and financial measures There have been several measures could be considered such as(Brand Value, Sales, Cost Efficiency, Costs of capital, Reducing company's risk exposure (Figge et al., 2001). Kamatra, and Kartikaningdya (2015 ) argue the profitability ratios including ( ROA, ROE, NPM and the EPS ) to measure the influence of CSR on financial performance.(Bird, et.al, 2007) state the market-to book ratio (MTBV) and the price to- earnings ratio (PE) while Guidry and Patten (2010) apply the Stock Price returns as key measure to financial performance.

In addition Net income, Book value of equity and stock returns suggested by (Hassel et.al,2005).

### **2/4.strategic corporate social responsibility components and Sustainability balanced score card**

Social commitment is viewed as an important requirement to ensure the internal acceptance of SBSC(Bieker 2003).Henriques and Sadorsky (1999) conclude top management involvement and environmental training as key preconditions to social commitment. They also assert the importance of developing social and environmental plans and communicating them to all stakeholders. Social commitment enable firms to develop well designed Sustainability Balanced Scorecard (SBSC) by identifying the strategically relevant concerns that link operational aspects and non-economic actions to strategy (Bieker&Waxenberger, 2002). It also ensures that the main perspectives (learning- operational- customer-financial- non-market- em-



ployees) of SBSC are highly aligned with organization's objectives and strategies (Kanga.al 2013).Social commitment as reflection to stakeholders' needs helps in translating sustainability and social initiatives to strategic themes that directly support the achievement of strategic goals. Social commitment guarantees a higher strategic fit between social strategic goals, key performance indicators and performance measures, as a result, **the following hypothesis can be developed:**

**H1:** "social commitment has a positive impact on sustainability balanced scorecard".

In addition to social commitment, Operational excellence has also introduced as a fundamental component of SC-SR. It implies the closeness of CSR initiatives to company's core business.

Operational excellence seems to provide companies with the necessary framework to develop more reflective SB-SC. It enables firms to bridge the strategic gap between organization visions, strategies and social objectives (Wagner, 2010).In this context,(Liebl, 1996, Figge et al., 2001a) suggest a comprehensive framework of strategically relevant environmental and social aspects which derived from stakeholders 'concerns. By considering the Social relevance, firms could be able to relate operational excellence with SBSC and avoid environmental and social exposure. According to operational excellence's products and activities, categories of lagging and leading indicators are derived and included in SBSC. Lagging indicators ensure that the strategic objectives in each perspective have been achieved. leading indicators are very firm specific and significantly contribute to strategic core activities (Kaplan and Norton, 19-

97, Figge et al.2002).in conclusion, Operational excellence highlights the relations between strategically relevant social aspects and firm core's business which highly reflected in hierarchic cause-and-effect chains between the main perspectives of SBSC , so, **the following hypothesis can be presented:**

**H2:** "operational excellence has a positive impact on sustainability balanced scorecard".

Furthermore, Sustainability Balanced Scorecard (SBSC) is best viewed as a critical practice of social formalization. Schaltegger and Wagner (2006) suggest that, as a part of social formalization, companies should integrate environmental and social information with financial business information.

Social formalization tools enable firms to develop more comprehensive SB-SC as a visual reporting tool and classification technique. Formalization tools can legitimize SBSC practices and help organization to increase the level of compliance with the planned standards.

In the same context several studies indicated that disclosing firms that integrate incorporate sustainability measures as part of their formalization system have more ability to develop more standardized and legitimized SBSC.(eg, Figge et al. 2002; Bieker 2003,Schaltegger&Wagner (2006). Clarkson et al. (2008) confirm the positive relation between social disclosure and SBSC practices. **So the following hypothesis can be formulated:**

**H3:** "social formalization has a positive impact on sustainability balanced score card"

## **2/5.strategic corporate social responsibility components**

## **and financial performance**

Husted and Allen (2007) define appropriability in SCSR context as the ability of a firm to generate economic benefits from the social initiatives. They confirmed the positive correlation between the strategic CSR and firm's value.

In this line, there has been vigorous debate over the relation between SCSR and financial performance. Results over this relation remains inconclusive (Carroll&Shabana2010).Some scholars confirm the positive correlation, (Kang & Liu, 2014,Orlitzky et al., 2003;) while others argue for negative or no correlation (McWilliams & Siegel,2000, Wagner et al., 2002, McWilliams & Siegel, 2000,Aras et al., 2010) .Several literature suggest Many mediating variables could leverage this relation such as reputation , Consumer satisfaction, , cost efficiency and competitive advantage( eg,Flanagan &O'Shaughnessy, 2005, Bebbington et al., 2008,Surroca et al., 2010, Saeidi et al., 2015).

Based on stakeholder's theory and great deal of literature over the relation between strategic social responsibility and financial performance, social commitment as a key component of SCSR could improve financial performance depending on the stakeholders influence capacity. Stakeholder's theory call for a comprehensive examination of groups to whom a firm reacts responsibly (Moir,2001,).According to (Pesqueux and Damak, 2003 ,Cummings and Patel 2009) there are several categories of stakeholders including: employees,customers, suppliers, and social community.

Customers represent sources of income and suppliers , lenders and non-profit social activities represent sources

of expenses. In general, we can say that social commitment as reflection to the ability of a firm to identify its stakeholders and successfully satisfy their relevant needs could improve profitability and reduce costs, **so we can formulate the following hypothesis:**

**H4.**"Social commitment has a positive impact on financial performance".

In addition, the relation between the operational excellence as key component of SCSR and financial performance has been investigated from different perspectives. In this context Husted and Salazar (2006) identified three types of social investment (altruistic, selfish and strategic), they argued that, only strategic investment which emphasizes the operational excellence could achieve maximization of both profit and social performance .operational excellence concept is basically built on the relation between social initiatives and company competitiveness which directly affects financial performance. According to sustainability competitive strategies :enhanced reputation, better and more qualified labor, differentiating products will affect directly on financial performance by increasing sales and reducing costs(Dyllick 1999,Gminder et al.2002). Weber (2008) proposes five areas of beneficial impacts of social initiatives regarding operational excellence perspective, they are: Company image & reputation, Employee motivation, Cost savings and market share. Furthermore, productivity as a key determinant of operational excellence also affects positively on financial performance (eg.Agell,at.al,1996, Fehr & Schmidt, 1999, Fehr & Falk, 2002,Sobel, 2002).

Regarding the above discussion we can state that, operational excellence could improve profitability through its

effects on costs and revenues. In terms of cost operational excellence activities might be evaluated as a source of expenses but will offset by customer's satisfaction which reflected in increased revenues. **As a result:**

**H.5.**"Operational excellence has a positive impact on financial performance".

As discussed above, social formalization based on Corporate disclosures, standardization of social practices and legitimization provide firms with the opportunity to spread value information mainly to financial stakeholders as stock analysts, capital markets and institutional investors and there as get evaluated on its financial measures (Karagiorgos,2010). Social formalization practices can be used to legitimize the profits generated through use of corporate external resources(Woodward et al. ,19-96).Several studies have confirmed the association of risk and social disclosure (eg.Purushothaman et al.,2000,Khlif&Souissi, 2010,Parsa, &Kouhy, 2008Andrikopoulos et al 2014). They argued that greater risk for creditors and investors ultimately leads to a greater demand from stakeholders for information. In general, social formalization tools could enhance firm transparency and legitimize firm profits and costs.

**The above discussion leads us to present the following hypothesis**

**H.6.**" social formalization has a positive impact on financial performance".

## **2.6. sustainability balanced score card and financial performance**

Based on the literature on the CSR and financial performance relation and the external factors that can mediate

this relation, sustainability balanced scorecard (SBSC) is extrapolated as a strategic tool that could relate financial goals with social and environmental-dimension(.Bieker&Waxenberger,2--002,&Woerd&Brink,2004).Sustainability balanced scorecard(SBSC)highlights the relationship between long-term resources, sustainability practices and financial outcomes .The philosophy of cause and effect chains should not comprise only environmentally indicated costs, but rather all direct and indirect financial effects (Lindorff, at.al 20-12).SBSC is viewed as critical tool in highlighting the relation between financial and non financial facts (Frigo, 2002) .Epstein and Wisner (2005) state that, sustainability balanced scorecard makes organization more able to ensure balance between profitability and social accountability. Furthermore, several studies (eg.Palmer,& Harmony,2012,-Bieker2003,Wagner, 2010) argue that SBSC practices are highly associated with lower operational costs, improving productivity, increasing market opportunities. **As a consequence, it can be hypothesized that:**

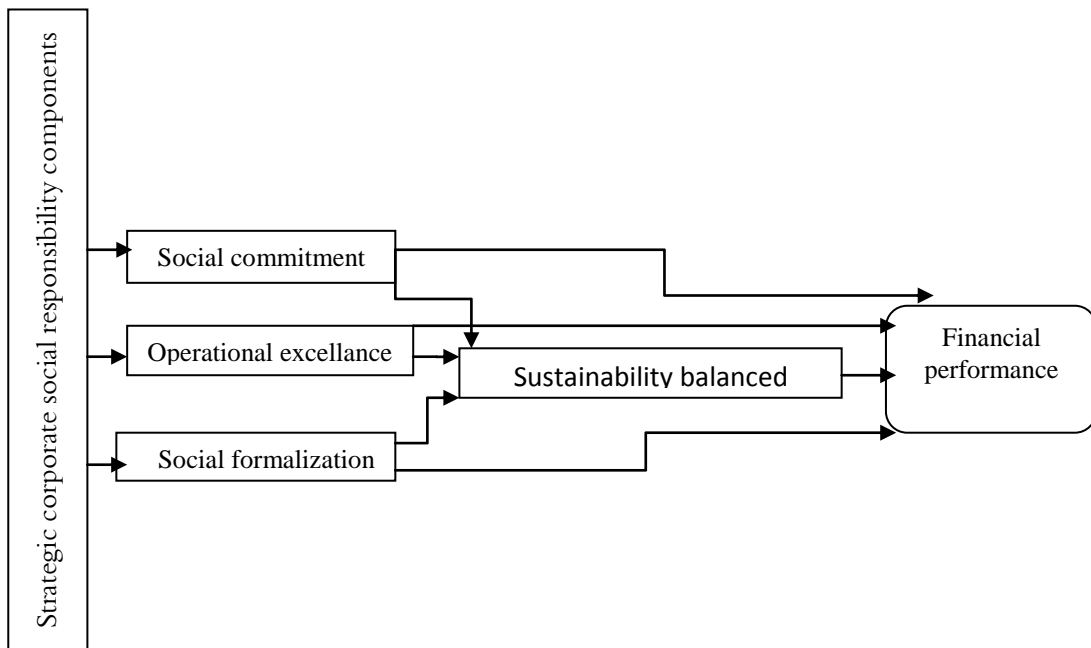
**H7:**"Sustainability balanced scorecard has a positive impact on financial performance"

## **3.researchVariables and framework**

The researcher identified and measured the independent Variable (strategic corporate social responsibility based on its three basic components (social commitment-operational excellence-social formalization ) through literature review based on (Burke &Logsdon (1996, Husted &Allen 2001, Porter & Kramer 2006, Perrini&Minoja, 2008, Maon et al, 2008 ). As well as the mediating v-

variable (sustainability balanced score card) identified and measured based on(eg.Kaplan& Norton, 1996. Wisner, 2001, Figge et al., 2002, Smith et al., 2009, Epstein, 2008).to identify and measure the dependent Variable (finan-

cial performance) the researcher adopted the proposed ideas from (eg.Carroll&Shabana, 2010,Orlitzky et al., 2003, Kang & Liu, 2014, Oeyono et al, 2011, Orlitzky,2008).thus A conceptual framework has been developed (Figure 1).



( figure 1)the conceptual framework

## 4. Research methodology

### 4.1. Research design

This study is characterized as descriptive, as it “exposes characteristics of certain populations. It can also establish a correlation between variable and define its nature.” (Vergara, 2000) . We adopted a quantitative approach wherein the data collection instrument was a questionnaire. Single cross-sectional designs, is applied. Where there is only one sample of respondents and information is obtained from this sample only once.

### 4.2. The research population and sample

The research aim is to introduce a conceptual framework of strategic corporate social responsibility based on social commitment, operational excellence and social formalization to improve financial performance through the sustainability balanced score card. The relevant literature review enabled us to design such frame work and test the relations between research variables in the setting of the top 30 EGX-ESG,

index. According to Egyptian Capital Market (EGX) all large-sized enterprises (LEs) since (2006) have to address EGX Enlisting regulations and Requirements considering, social responsibility, corporate governance, transparency and disclosure as well as environmental sustainability, thus these corporations could provide valuable and relevant data for our research, The listing corporations are shown in table (1). Critical case sampling was used for identifying managers who actually participated in CSR operations, be they (CEO,CSR, PR, MARK or senior) managers. Critical case sampling is defined as “choos-

ing settings, groups, /or individuals based on specific characteristic(s) because their inclusion provides the researcher with compelling insight about a phenomenon of interest” (Onwuegbuzie& Collins, 2007).About 145 managers were relevant to participate in our research as they involved in social initiatives in different ways as shown in table (2). The researcher emailed the survey directly to sampling managers after ensuring their agreement by telephone calls or organized meetings. Managers also had the option to return the questionnaire by e-mail.

**Table (1) the components of the Egypt top30 EGX-index**

Company name	Weight(%)	Company name	Weight(%)	Company name	Weight(%)
Commercial Int-Bank	37.7%	Telecome-Egypt	2.66%	Emaar –Misr for development	.83%
Hermes Holding company	6.59%	Palm Hills-development	2.39%	Orascom Construction	.79%
Global telecom holding	6.02%	Heliopolis Housing	2.31%	Arab cotton Ginning	.73%
T-M-G holding	5.66%	Ezz –steel	2.05%	Egyptian for tourism resorts	.57%
Eastern Company	5.00%	SODIC	2.02%	Arabian cement co	.47%
Elsewedy electric	3.87%	Juhayna food industries	1.77%	Porto-group – Holding	.40%
Medinet Nasr Housing	3.67%	Pioneers holding	1.48%	Amer group holding	.37%
Sidi-Kerir petrochemical	3.27%	GB-Auto	1.22%	Arabian food industries	.27%
Oriental Weavers	2.85%	Orascom telecome	1.03%	Egyptian Iron steel	.18%
Credit-Agic-ole-Egypt	2.66%	Citadel capital	1.02%	Cairo oil soap	16%

**Table (2)sample according to Job (Position)**

		Frequency	Percent	Valid Per- cent
<b>Valid</b>	CEO	12	8.3	8.3
	marketing manager	27	18.6	18.6
	financial manager	28	19.3	19.3
	operational manager	27	18.6	18.6
	human resources	25	17.2	17.2
	social responsibility	19	13.1	13.1
	Others	7	4.8	4.8
	Total	145	100.0	100.0

Output from SPSS analysis

## 4.2. data collection

Data collection was based on structured questionnaire. The questionnaire instrumental sections are as follows: Section one Occupational Characteristics. (Position) Title, Section Two: includes the measures of variables of the research. The independent variable (strategic corporate social responsibility) has been measured based on (3) main components (social commitment, operational excellence, and social formalization) through (18) items, the mediating variable (sustainability balanced scorecard) measured through (10) items and the dependent variable (financial performance) measured through (5) items. Answers were organized according to 5 points likert scales ranging from 1 = strongly disagree , 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree. Data was collected between (September and October 2017).

## 4.3. Data analysis techniques

Data were analyzed through SPSS-Statistics software 17.0 versions and Amos application-17, by using The following techniques:-

- Mean , standard deviation, Skewness, and Kurtosis for descriptive statistics of sample data.
- Cronbach alpha for testing internal consistency reliability of used measurement scales.
- Factor Analysis for testing the construct validity of used measurement scales.
- path analysis technique to explain the relations among the variables and test the hypotheses .

## 5. results

### 5.1. Descriptive analysis

We conducted statistical analysis with regard to the variables considered in the research: social commitment, operational excellence, social formaliza-

tion, sustainability balanced scorecard, and financial performance. The results of Mean value, standard deviation, ske-

wness and kurtosis are summarized in Table (3).

**Table (3)descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Social commitment	145	2.00	5.00	3.5103	.65571	.083	.201	.187	.400
Operational excellence	145	2.00	5.00	3.7563	.42764	-.607-	.201	2.385	.400
Formalization	145	2.00	5.00	3.3021	.71691	.048	.201	-.594-	.400
Sustainability	145	2.20	4.90	3.4752	.51038	.063	.201	.374	.400
Financial performance	145	1.00	5.00	3.5356	.59938	-.899-	.201	1.667	.400
Valid N (listwise)	145								

Table (3) clarifies the sample attitude toward the study variables (strategic corporate social responsibility components, sustainability balanced scorecard and financial performance) where the arithmetic mean for these variable ranges between (3.75 - 3.30) indicating the existence of the such variables from the sample point of view.

then , skewness and kurtosis of each observed variable was examined To analyze univariate normality distribution. The values of skewness and kurtosis for all variables are considered in the acceptable range. For the skewness index, acceptable value range between(-3 and +3) (Chou et al., 1995), whereas for the kurtosis index the values less

than (10) are considered in acceptable range (Kline, 2005). Thus, the univariate normality of the variables reasonably exists. These results indicate the optimality to use path analysis technique.

**5.2 .Reliability and validity analysis**

The reliability of the research variables were examined by computing Cronbach's alpha coefficients. Test was used suggested by Gregory (2004). The acceptable Cronbach'salpha reliability is (0.7).The Cronbach's alpha for all constructs is above ( 0.70) (0.822) for social commitment, (0.847) for operational excellence, (0.853) for social formalization, (0.865) for sustainability

balanced scorecard and (0.871) for financial performance providing support of the reliability of all constructs used in the research as shown in table (4).

**Table (4) Cronbach alpha coefficients of used scales in the research**

Variables	Social commitment	Operational excellence	Social formalization	Sustainability balanced scorecard	Financial performance
No of Items	5	8	5	10	5
Cronbach'alpha	0.822	0.847	0.853	0.865	0.871

The research tests the validity through both content validity and construct validity. Content validity conducted by asking scholars in strategic management area to check the questionnaires items. Recommendations recommended by these scholars have been taken into account. Then factor analysis was used to confirm the construct validity of the measurement tool . KMO presented a value of (.835) indicating the data set size adequacy and Bartlett test presented a value of 0.000 proving significance for further analysis (Wixom& Watson 2001) ,The results are summarized in table (5) .

**5.3. hypotheses testing**

to explain the relations among the variables and test the hypotheses a path analysis was conducted :

$$\chi^2$$

the test , gave the value (220.99) with a probability (.004) and showing ( 99) degree of freedom. The Value of  $\chi^2 / df$  ( 2.22). The probability Level shows the fitting of the model at the level of significance of (p≤ 0.01).

The goodness of fit index has been calculated, Normed fit index (NFI) , Comparative Fit Index Fit (CFI), relative fit index (RFI) must Proximity to One . Root Mean Square Error of Approximation (RMSEA )must Proximity to Zero. The model of study achieve high degree of fit , NFI value is , (0.727), CFI value is (0.969), RMSEA Root Mean Square is (.043). previous results allows us at considering the acceptability of the model .the results of

**table (6) Goodness of fit results**

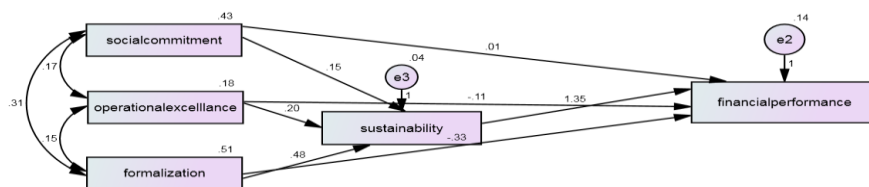
Goodness of Fit index are shown in

	P	$\chi^2 / df$	Df	$\chi^2$ (CMIN)
	000	2.22	99	220.99
<b>RMSEA</b>	<b>RFI</b>	<b>GFI</b>	<b>CFI</b>	<b>NFI</b>
.043	.864	.969	.969	.727



table (6).

figure (2) presents the model that be tested through path analysis and table (7) presents the regression weights for the variables considered in the model .



**Figure( 2) model to be tested through path analysis**

**Table (7) results of path analysis**

			Estimate	S.E.	C.R.	P
sustainability	<---	Social commitment	.151	.038	4.008	***
sustainability	<---	Operational excel- lence	.202	.050	4.089	***
sustainability	<---	Formalization	.481	.031	15.421	***
Financial performance	<---	Social commitment	.009	.074	.126	.900
Financial performance	<---	Operational excel- lence	-.113	.098	-1.147	.251
financial performance	<---	Formalization	-.332	.095	-3.486	***
Financial performance	<---	Sustainability	1.353	.156	8.656	***

## 6. Discussion and conclusions

The research aimed at investigating the relation between strategic corporate social responsibility based on social commitment, operational excellence and

social formalization and financial performance through the sustainability balanced scorecard.

The obtained results allow us to indicate the following about the relations

between the research variables.

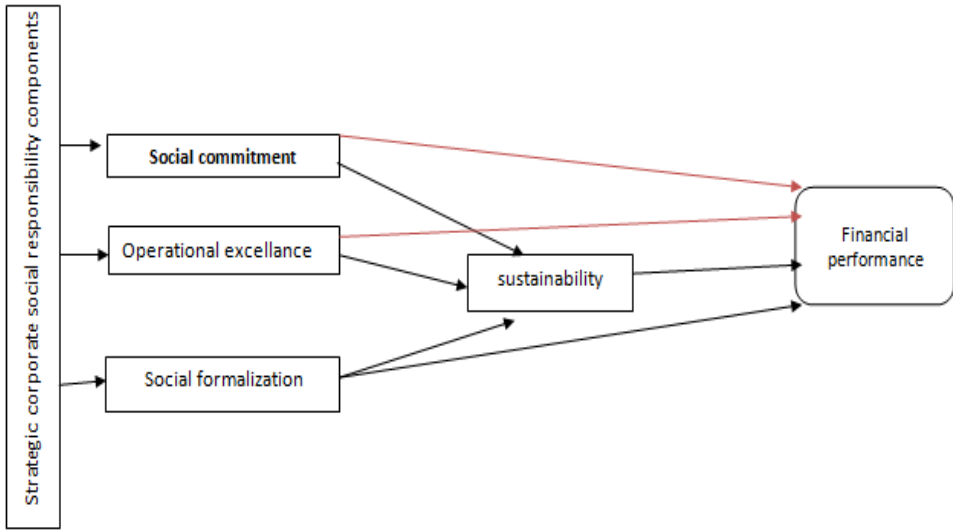
First, the impact of social commitment on sustainability balanced scorecard is confirmed. This result indicates that social commitment based on well identified stakeholders concerns ensure the strategic fit between social goals and corporate strategies which in return lead to well-designed SBSC. Second, the relation between operational excellence and sustainability balanced scorecard is proved, this suggests that operational excellence is important to relate the social concerns with the firm's core activates with regard to the competitiveness strategies. In addition, the lagging and leading indicators as fundamental measures in SBSC are basically derived from operational excellence activities .third, the results allow to confirming the relation between social formalization and sustainability balanced scorecard, thus we can state that social formalization practices can be viewed as basic sources for providing the required information for developing more standardized and legitimized sustainability balanced scorecard. Social formalization helps organizations to appear more compliance with the planned standards, and emphasize the legitimization of sustainability results .Fourth, the results did not allow at confirming the direct impact of social commitment on financial performance. Social commitment is not relevant to directly improve financial performance,

mediating variables can be considered in enhancing this relation, and thus the hypothesis relating to positive effect of social commitment on financial performance is rejected. Also the relation between operational excellence and sustainability balanced scorecard is rejected. As a consequence, it can be argued that operational excellence is not relevant to improve financial performance in direct manner.

Furthermore, the relation between social formalization and financial performance is proved. Corporate disclosure based on Social formalization tools (social/sustainability reports and certified management systems) could affect directly on financial performance by increasing profit and reducing risk.

Then the analysis, allows at confirming the impact of sustainability balanced score card on financial performance. Thus, the mediating role of sustainability balanced score card in strengthening the relation between strategic corporate social responsibility and financial performance is proved.

According to the results presented above we can present the final model in (Figure 3) as a means to explain how top 30 EGX firms in Egypt can adopt strategic corporate social responsibility and develop well designed sustainability balance scorecard and also how they can utilize the relation between them to improve financial performance.



**(Figure 3 ) Final research model**

Based on the results presented above, the model confirms the relations presented by the literature; as argued by (Figge et al., 2002, Bieker and Waxenberger, 2002) social commitment is significant precondition to build sustainability balanced scorecard. Operational excellence is relevant to develop more reflective sustainability balanced scorecard, too. The closeness of CSR initiatives to company's core business Regarding firm's competitiveness is a critical antecedent for building a well-designed sustainability balanced scorecard as proved by (eg, Burke and Logsdon (Zadek , 2006., Schaltegger & Lukede, 2011, Wagner, 2007) . As concluded by (eg. Maon et al, 2009, Perrini & Minoja 2008, Figge et al., 2002) social formalization seems to be an appropriate to develop more standardized and legitimized sustainability balanced score card .

As mentioned above social commitment and operational excellence are not relevant to directly improve financial performance. Mediating variables may allow to leverage the impact of the both dimensions on financial performance such as (stakeholders influence, Company image, reputation, Employee motivation) which suggested by Weber (2008), and Consumer satisfaction which introduced by (Pivato et al., 2008), sustainability balanced scorecard presented by (eg. Bartolomeo et al., 2000; Wagner, 2007, Bieker and Waxenberger, 2002).

As concluded by (Karagiorgos, 2010, Andrikopoulos et al. 2014), social formalizations tools affects directly on financial performance by increasing profits and reducing risk.

Finally, the research confirmed the positive effect of sustainability balanced scorecard on financial performance

in Egypt as argued by (eg.Butler et al., 2011, Wagner, 2007, Lansiluto and Jarvenpaa2008, Epstein and Wisner 2007).

### **Previous results allow us to draw some practical implications**

The primary implication is that, to enhance the firm's financial performance and ensure the stakeholder's commitment we suggest that, CSR must be approached with the strategic perspective rather than the traditional perspective.

because the relations between SCSR components and sustainability balanced scorecard have been confirmed ,we suggest that organizations should recognize the importance of sustainability balanced scorecard as a strategic management tool that helps in ensuring social commitment, enhancing operational excellence and supporting social formalization which captured as the basic components of financial performance. SBSC enables firms to evaluate social investments with different perspectives (financial, customer, process ,learning, non-market ,employees) and highlights the cause-effect relation between all aspects of strategy. It also helps in improving financial implications of SCSR

Regarding the research results, managers can measure their progress toward SCSR practices and track its direct and indirect impact on financial performance through the SBSC .the top management commitment captured as a key determinant particularly in aligning corporate strategy with social initiatives and performance outcomes.

This study suggests that, managers should pay significant attention to the successful communication of their firm's social involvements to all stake ho-

lders. Culture analysis and social awareness should be emphasized in the communication process.

The general results of this study provide evidence of the usefulness of financial measures to examine the economic implications of the strategic corporate social activities .Many useful ratios can be used in this area.

Moreover, most of the past researches only focused on the relation between CSR and financial performance directly or indirectly by mediating variables such as reputation, exposure, and customer satisfaction, in this study, we suggest sustainability balanced scorecard as a mediating variable in strengthening the impact of strategic social initiatives on financial performance.

### **7.Limitations andfuture researches**

This study examines only the top 30 EGX-ESG index according to Egyptian Capital Market (EGX). This is an inevitable limitation as the index includes only 30 corporations. Therefore, the results may not be generalized to the awareness of the entire Egyptian market.

Considering the ability to conduct further analysis, this is the first study that investigates strategic corporate social responsibility and its direct effect on financial performance and indirect through the SBSC in the Egyptian setting.

The paper contributes to the literature related to how strategic corporate social responsibility is developed in firms and how SBSC as a strategic tool can be utilized to increase the financial Implications of SCSR. Also it presents practical implication for the firms' management.

Although this paper substantiates the mediating effect of sustainability balanced scorecard, it does not identify the degree to which different types of sustainability balanced scorecard is more relevant to sustain this relation .The effect of sustainability balanced scorecard on financial performance may vary according to the approach by which firms develop SBSC. Therefore, there is a need for a deep investigation in the different approaches that can be used in developing sustainability balanced scorecard in the context of SCSR in the developing countries.

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## Appendix A.

Instruments for strategic corporate social responsibility, sustainability balanced scorecard and financial performance

### Section 1:title

Chief executive officer                      marketing manger                      financial manager  
 Operational manager                      - human resources manager                      public relation

### Section 2

With regard to strategic corporate social responsibility components in your corporation, please indicate how much you agree or disagree For each of the statements below, by selecting the appropriate answer. The item scales are five-point Likert type scales with 1 = strongly disagree , 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree , Note: Items marked by an asterisk were removed in the final instruments

<b>strategic corporate social responsibility components</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Social commitment</b>					
1-we have explicit and assessable social goals in our strategic plan.					
2-we have a clear identification of stakeholders to whom the company has bonds of responsibilities.					
3-our social activities are undertaken as a result of legal constraints or fiscal incentives.					
4-our social initiatives are significantly motivated by top management's personal values.					
5-We frequently emphasize the social awareness of our employees through different means such as training or open discussions.					
<b>Operational excellence</b>					
6-our social initiatives are directly connected to the company's core business.					
7-we significantly consider the social initiatives that improve our company's competitiveness .					
8-we recognize the social issues that are highly affected by company activities in the regular course of business.					
9-we build our competitive position on Strategy “safe” by reducing and managing risks in the existing markets.					
10-our competitiveness is basically depend on Strategy credible” by tackling issues of image and reputation as a valuable non-tangible asset.					

11- We successfully pursue eco-efficiency Strategy as it helps to reduce cost and increase productivity of employees.					
12-we include Strategy "innovative" in our plans through well-developed sustainable advantages .					
13-We actively call for institutional changes within human needs, politics as means of transformation of existing or creating of new markets.					
<b>Social Formalization</b>					
14-we have a permanent organizational unit (a department) responsible for CSR activities.					
15-we include ethical codes, social commitment in our mission statement.					
16-we have awarded with national or international social/environmental certifications.					
17-we highly recognize the importance of social reports' publication as tool of social formalization					
18-we utilize Sustainability Balanced Scorecard (SBSC) as strategic tool to integrate social responsibility initiatives in our strategies.					

With regard to sustainability balanced score card practices in your corporation please indicate how much you agree or disagreeFor each of the statements below, by selecting the appropriate answer. The item scales are five-point Likert type scales with 1 = strongly disagree , 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree .

<b>sustainability balanced score card practices</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
19-We periodically evaluate business units which have an opportunity to impact sustainability outcomes.					
20-we consider the strategic relevance between the social initiatives and company strategy.					
21-we ensure that the main perspectives of SBSC ( learning - operational- customer- financial, non market, employees) are highly consistent and aligned with the organization's strategies.					
22-SBSC helps us to emphasize the causal relationships between qualitative “soft facts” and financial performance through SBSC tool.					
23- SBSC enables us to enhance the strategic fit between social strategic goals, key performance indicators and performance measures through SBCS.					
24-we frequently check the environmental and social exposure against the categories of lagging , leading and hygienic indicators .					

25- we basically use SBSC as both a visual reporting tool and classification technique.					
26-SBSC enhances standardization of sustainability results achieved by the organization.					
27- SBSC ensures that our social and sustainability practices are being “legitimized” within the organization.					
28- SBSC supports disclosure practices by integrating incorporate sustainability strategies and measures as part of our performance measurement system.					

With regard to financial performance indicators in your organization, please indicate how much you agree or disagree For each of the statements below, by selecting the appropriate response. The item scales are five-point Likert type scales with 1 = strongly disagree , 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

<b>Financial performance</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
29-we have higher liquidity ratios than our key competitors.					
30-we have higher Assets efficiency ratios than our key competitors.					
31- we have higher Profitability ratios than our key competitors.					
32-we have relevant leverage ratios comparing to our key competitors.					
33-we have higher Market value than our key competitors.					































































































































































































































