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# The Effect of Corporate Social Responsibility on Religiosity, Individual Social Responsibility, and Corporate Financial Performance in South Korea\*

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## Abstract

The study investigates the mediating effect of Korean firms' corporate social responsibility (CSR) in the relationship between Korean executives' religiosity, their individual social responsibility (ISR), and corporate financial performance (CFP). As executives lead the firms' strategies and policies, their religiosity or ISR may have a significant influence in attaining the firm's CSR and influencing CFP. The upper echelon theory, agency theory, and stakeholder theory are used to explain the link between individual-level drivers of CSR, a firm's CSR, and CFP. The upper echelon theory, agency theory, and stakeholder theory are integrated into the conceptual model, which explains the relationships between proposed constructs in this study. This study employs survey data of 421 Korean companies. The confirmatory factor analysis (CFA) technique was used to test the proposed hypotheses. The main result shows that Korean executives' religiosity and their ISR positively influence CFP when mediated by CSR. The findings of this study suggest that Korean executives' personal values such as their religiosity and ISR can impact the firm's CSR activities or financial performance. Overall, this paper responds to the recent calls in the CSR literature to examine the individual-level drivers from non-western contexts by shedding more light on the Korean context.

**Keywords:** Corporate Financial Performance, Corporate Social Responsibility, Individual Social Responsibility, Korean Executives, Religiosity

**JEL Classification Code:** M00, M10, M20, M40, M48

## 1. Introduction

Corporate social responsibility (CSR) has been touted as an effective management tool to strengthen the organizations' performance through a better image in stakeholder's minds and also because of their responsible behavior toward society and the environment (Vallentin, 2015). The instrumental view of CSR argues that efficient competition would result in ultimate benefits for society.

Therefore, firms should ensure the long-term maximization of their value and their social welfare, and this would result in sustained organizational competitiveness and enhanced shareholder wealth. Consistent with the instrumental view of CSR, there is a vast amount of literature that explores managers as self-interested agents. Most CSR studies in this instrumental stream tend to disregard the impacts of individual differences, or particular personal dispositions that might influence a firm's CSR strategy (Henriques & Sadosky, 1999). Moreover, studies that investigate CSR from the external environment or institutional perspective have focused on CSR drivers at the firm-level or institutional-level factors, and their effect on corporate financial performance (CFP), and this stream of CSR literature has not taken micro individual-level drivers internal to a firm seriously (Štumberger & Golob, 2016).

Moreover, the majority of the CSR literature is focused on the western contexts. This is in spite of the rise of Asian economies over the last three decades (Wang et al., 2015). In many of these western-focused CSR studies, the

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religiosity of managers is often treated as neutral, given that many western countries are secular and irreligious in practice (Maak et al., 2016). Hence, the study context in this research is South Korea, which has a unique cultural characteristic, and this study seeks to answer the question, ‘Do CSR mediate the relationship between Korean executives’ religiosity, their individual social responsibility (ISR), and CFP?’ This study finds that there is a mediating effect of CSR on the relationship between Korean executives’ religiosity, ISR, and CFP. Overall, this study responds to the recent calls in the CSR literature to examine the individual-level drivers from non-western contexts by shedding more light on the Korean context. This study contributes to CSR literature, and also provides practical implications for Korean firms and society at large, including insights relevant to CSR-related decisions.

## 2. Theoretical Framework

### 2.1. Upper Echelon Theory

Upper echelon theory (UET) assumes that managers are the key decision-makers and they influence a firm’s performance (Hambrick & Mason, 1984). UET was built upon strategic leadership and suggests that individual characteristics influence differing strategic decisions by top management teams. Specifically, managers’ idiosyncrasies or personal characteristics such as their age, experience, cognitive style or personal values influence their strategic decision making within the bounded rationality, influencing organizational outcomes (Ellahie et al., 2017). UET suggests that upper echelons such as CEOs or top management individuals are powerful stakeholders, and their personal experiences or psychological characteristics such as their personal values or beliefs are key to shaping their strategic choices, investment decisions, or a firm’s corporate strategy and performance (Phan & Duong, 2021).

### 2.1. Agency Theory

The agency theory is based on the relationship between principals and agents. In the relationship between principal and agent, we face the problem of the existence of asymmetric information and risk aversion (Zerbini, 2017). Information asymmetry means that managers and other stakeholders have different abilities to access information. Based on AT, managers are motivated by extrinsic goals to gain power or control (Bacq & Eddleston, 2018). Managers have an interest in overinvesting in or overcommitting to CSR at a cost to shareholders to gain private benefits such as building their reputation as good citizens, creating a positive image, or increasing their marketability. They can use CSR as a risk management strategy to deflect the attention of stakeholders

from any wrongdoing or negative events involving their business to signal to investors or other stakeholders that their firm has an altruistic side (Cui et al., 2018).

### 2.2. Stakeholder Theory

CSR prioritizes one aspect of business – its orientation toward the society at large, i.e. its social orientation – over the other business responsibilities. Stakeholder theory posits that the essence of business primarily lies in building relationships and creating value for all its stakeholders (West, 2016). ST provides a useful theoretical framework to investigate CSR as it suggests that CSR is an antecedent of relationships between firms and stakeholders (Teapitthayamas et al., 2021). Since ST assumes that a business has a responsibility to its stakeholders to create value (Brown & Forster, 2013), investigating Korean executives’ individual-level driver of CSR and its relationship with CFP will shed different lights on the current CSR literature by laying the foundation for the anthropological perspectives in the application of ST.

## 3. Literature Review and Hypotheses Development

### 3.1. Religiosity and Corporate Social Responsibility (CFP)

Several studies examined the relationship between religion or religiosity and CSR. For example, Murphy and Smolarski (2020) investigated the direct link between normative Islam and political CSR. Ramasamy et al. (2010) investigated the influence of religiosity and values on corporate social responsibility (CSR) support among consumers in Hong Kong and Singapore. Su (2019) examined the link between religion and CSR in low- and high-polluting industries in China.

However, while some studies have focused on the reporting of the connection between religion and CSR, relatively little empirical evidence is available that shows the relationship between executives’ religiosity and the firm’s CSR activities, especially in the Korean context. Therefore, this study suggests that Korean executives’ religiosity can be seen as an important driver of the firm’s CSR activities. These arguments lead to the following hypothesis.

*H1: Korean executives’ religiosity is positively related to the firm’s social responsibility activities.*

### 3.2. Religiosity and Corporate Financial Performance (CFP)

An individual’s religiosity can be an individual-level driver of a firm’s operations, efficiency, or productivity, which helps

to achieve the goal of the company in increasing the firm's financial performance. For example, Pepis and de Jong (2019) examined the long-term effects of Shariah-compliant business practices on financial performance and found that Shariah compliance positively influences a firm's long-term financial performance. Salaber (2013) examined the influences of religious preferences on share prices and expected returns in 12 European countries, and found that that religion has a significant effect on the share price of companies whose activities are considered unethical, i.e., tobacco manufacturers and alcohol producers. Chourou (2018) examined whether religiosity is associated with the valuation multiples investors assign to fair-valued assets that are susceptible to managerial bias. They found that the value relevance of such assets is higher for firms located in more religious counties than it is for firms located in less religious counties. Additional tests showed that the positive association between religiosity and value relevance of fair-valued assets is limited to firms with high fair value exposure, and it is stronger for firms with lower audit quality and lower institutional ownership. Therefore, Korean executives' religiosity could be positively related to the firm's financial performance. Based on this, the following hypothesis is proposed.

*H2: Korean executives' religiosity is positively related to the firm's financial performance.*

### 3.3. Individual Social Responsibility (ISR) and Corporate Social Responsibility (CSR)

Individual social responsibility (ISR) is the perception of an individual towards social responsibility, or an individual's personal social responsibility in the society such as recycling behavior, green consumption, or donation to charities (Song & Kim, 2018). Since executives are leaders in their companies, the role they play is very important in ensuring good corporate governance for the purpose of achieving CSR. Thus, their ISR would play a significant role in achieving CSR.

Tourigny et al. (2019) proposed that the ethical stance of supervisors influences subordinates' perceptions of CSR which in turn influences subordinates' trust in the organization resulting in their taking increased personal social responsibility and engagement in organizational citizenship behaviors (OCB) oriented toward both the organization and other individuals. Hence, executives with a high level of ISR might also lead to a correspondingly high level of CSR since their ISR would be related to a firm's CSR activities. Therefore, ISR in this research is investigated with its link with CSR. Hence, the following hypothesis is developed.

*H3: Korean executives' ISR is positively related to the firm's social responsibility activities.*

### 3.4. Individual Social Responsibility (ISR) and Corporate Financial Performance (CFP)

While ISR takes many forms and dimensions where an individual's behavior can be manifested, ISR has been seen as a major contributing factor for realizing a firm's strategies for a more responsible role, which shows the direct link between ISR and CSR. Moreover, corporate managers might have a personal reason to understand the association between CSR and the capital market since the market reacts to information about CSR (Richardson et al., 1999). When managers are interested in maximizing stock price, their ISR can yield CSR by investing in projects that can offer positive CSR outcomes (Friedman & Heinle, 2016). Moreover, just like CSR, ISR can also be a key component of corporate sustainability, which influences CFP. Hence, executives' ISR can shape market outcomes. Based on this argumentation, the following hypothesis is proposed.

*H4: Korean executives' ISR is positively related to the firm's financial performance.*

### 3.5. The Mediating Effect of Corporate Social Responsibility (CSR)

Many studies have investigated the mediating effects of various factors on the CSR-CFP relationship. For example, Hunjra et al. (2020) argued that Pakistani firm's CSR practices mediate the relationship between culture, religiosity, and firm financial performance, and find that the mediating impacts of CSR enhance the effects arising from the relationship between them. López-Arceiz et al. (2018) examined the effect of CSR disclosure, as a transparency mechanism and good corporate governance (CG) practices, on the financial performance of socially responsible companies. To this aim, a system of simultaneous equations was proposed, in which the CSR disclosure variable has a mediating role, acting as a liaison between the CG adopted by the organization and the financial valuation. The results indicated that companies who wish to raise funds in the financial markets should develop both: a good CG and a high level of CSR disclosure, as part of their CSR strategy.

However, the mediating role of CSR on the relationship between executives' personal religiosity or ISR and CFP particularly in the Korean context has not been investigated much. Since there have been numerous CSR studies that have investigated the mediating role of CSR, there now is a need to test the mediating role of CSR on the under examined relationship between Korean executives' religiosity or ISR and CFP. This leads to the following hypotheses.

**H5:** Korean firms' corporate social responsibility activities mediate the relationship between Korean executives' religiosity and the firm's financial performance.

**H6:** Korean firms' corporate social responsibility activities mediate the relationship between Korean executives' individual social responsibility and the firm's financial performance.

### 3.6. Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP)

Studies that looked into the CSR-CFP relationship have reported mixed results, including positive, negative, or no relationship between CSR and CFP. When there is an overinvestment in high-cost CSR activities, undertaking CSR activities has been shown to negatively influence CFP; hence demonstrating a negative CSR–CFP relationship (Baird et al., 2012). In this case, firms may not pursue CSR as a strategy to enhance CFP; if they do, the optimal level of engagement in CSR activities should be identified (Tang et al., 2012). Moreover, there may be no relationship between CSR and CFP, as found by Soana (2011), and firms may not gain (or lose) financially from engaging in CSR activities. In short, this has the important implication that the literature fails to provide relevant information to adequately explain the CSR–CFP relationship. These mixed results provide insufficient guidance for firms regarding whether to engage in CSR activities at all and what is an appropriate level of engagement in CSR activities. This study follows the logic of the dominant theories that suggest the positive CSR-CFP relationship as can be seen below.

**H7:** Korean firms' corporate social responsibility activities are positively related to the corporate financial performance.

The theoretical framework can be seen below in Figure 1.

## 3. Research Methods

### 3.1. Sample and Procedure

To ensure the clarity of the survey questions, a pilot survey was conducted with Master of Business Administration students at Korea Advanced Institute of Science and Technology (KAIST), South Korea. Based on their responses, some of the survey questions are reworded to deliver more accurate ideas of the questions asked. Then, Macromill Embrain is hired to collect data. The Web-based questionnaires were distributed to 421 Korean companies, and 421 responses were collected resulting in a 100% response rate. However, of 421, 144 staff members and 4 uncategorized respondents are excluded as they do not hold a managerial position in the company, resulting in a total sample of 273.

### 3.2. Questionnaire and Measures

This study conducted a survey to measure executives' religiosity, ISR, CSR, and CFP. The survey questionnaire consisted of 77 items in total. There were 7 items for demographic information, 25 items for the construct of religiosity, 10 items for ISR, 16 items for CSR, 12 items

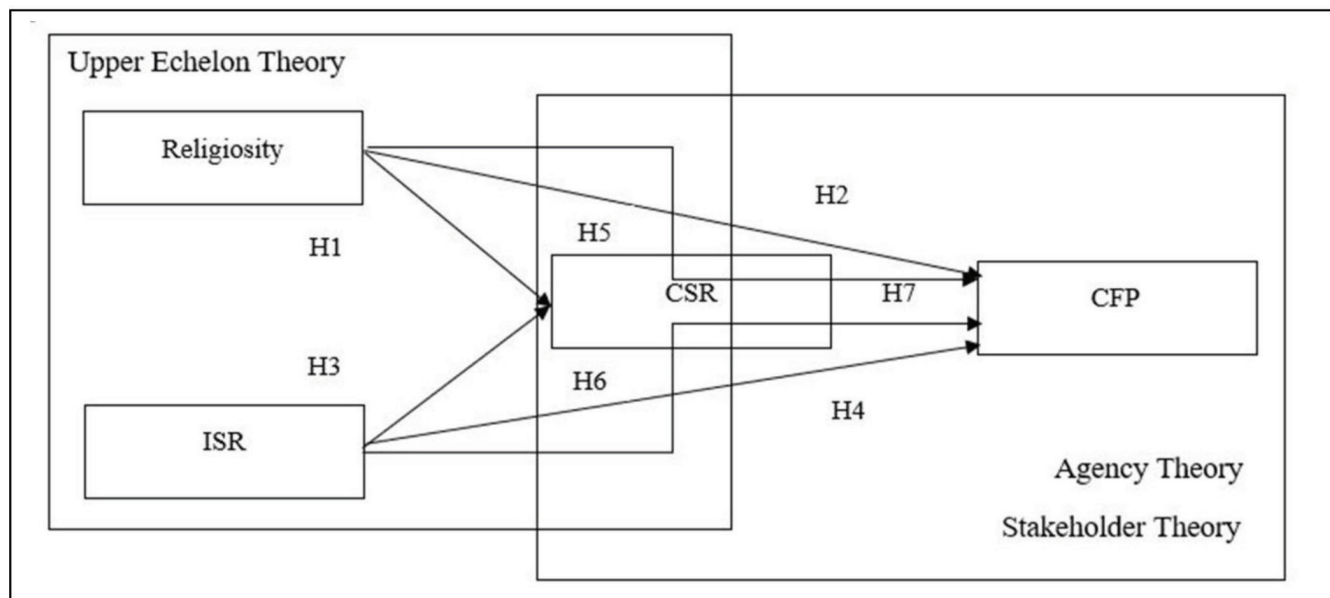


Figure 1: Theoretical Framework

for CFP, and 7 items for firm characteristics. Reverse coded items of REL5 and ISR5 were adjusted in data analysis for consistency in data. All items were adopted from literature and modified to adapt Korean context and were translated into Korean. The questionnaire was prepared in two versions of Korean and English, and the Korean version was distributed to Korean participants.

The respondents were asked to indicate the extent to which each survey item reflected their perceptions towards religiosity, ISR, CSR, by applying a 5-point Likert scale, 1 equaling “strongly disagree” and 5 equaling “strongly agree”. For religiosity, a 5-point Likert scale ranged from, 1 equaling “never”; 2 equaling “seldom”; 3 equaling “once a month”; 4 equaling “weekly”; 5 equaling “daily”. For CFP, the Likert scale for the first 6 questions ranged from 1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; 5 = strongly agree. The Likert scale for the second 6 questions ranged from 1 = very bad; 2 = bad; 3 = similar; 4 = good; 5 = excellent.

### 3.3. Data Analysis

Confirmatory factor analysis (CFA) was used for data analysis. Most of the fit indices in the measurement model show that the model is a good fit. Chi-square/degrees of freedom ( $\chi^2/df$ ) is 2.286, root mean square of approximation (RMSEA) is 0.069, normed fit index (NFI) is 0.703, relative

fit index (RFI) is 0.688, incremental fit index (IFI) is 0.808, tucker-Lewis coefficient (TLI) is 0.797, comparative fit index (CFI) is 0.806, and adjusted goodness of fit index (AGFI) is 0.609. The internal consistency of the instrument is examined by conducting Cronbach’s Alpha test (Nunally & Bernstein, 1978). Cronbach’s Alpha for these items ranges from 0.71 to 0.96 suggesting that these items have relatively high internal consistency.

To observe convergent validity and reliability of the instrument, the average variance extracted (AVE) and construct reliability (CR) of all variables are calculated. The AVE and CR values of religiosity are 0.48 and 0.95. The AVE and CR values of ISR are 0.31 and 0.75. The AVE and CR values of CSR are 0.07 and 0.39. The AVE and CR values of CFP are 0.63 and 0.95. To observe the discriminant validity of the instrument, the value of the squared inter construct correlations (SIC) is compared with the value of the squared root of AVE (Fornell & Larcker, 1981). The value of the squared root of AVE is greater than SIC; hence, the discriminant validity of all constructs is observed (See Table 1).

## 4. Results and Discussion

The result of the analysis is shown below in Table 2. Most of the results show that the relationship between the proposed constructs is significantly positive supporting

**Table 1:** Average Variance Extracted and Construct Reliability

Construct	AVE	Squared Root of AVE	CR	Correlated Variables	SIC
Religiosity	0.48	0.69	0.95	Religiosity ↔ ISR	0.04
ISR	0.31	0.56	0.75	ISR ↔ CSR	0.11
CSR	0.07	0.26	0.39	CSR ↔ CFP	0.33
CFP	0.63	0.79	0.95		

Note: AVE: Average Variance Extracted; ISR: Individual Social Responsibility; CR: Construct Reliability; CSR: Corporate Social Responsibility; CFP: Corporate Financial Performance; SIC: Squared Inter Construct Correlations.

**Table 2:** Regression Weights

Dependent Variable	Independent Variable	Estimate	S.E.	C.R.	p-value	Test Result
CSR	Religiosity	1.153	0.038	4.050	***	H1 Supported
CFP	Religiosity	0.045	0.04	1.135	0.257	H2 Supported
CSR	ISR	0.330	0.079	4.200	***	H3 Supported
CFP	ISR	0.021	0.083	0.257	0.798	H4 Supported
CFP (mediating)	Religiosity	0.025	0.034	7.276	***	H5 Supported
CFP (mediating)	ISR	0.02	0.02	10.01	***	H6 Supported
CFP	CSR	0.653	0.081	8.023	***	H7 Supported

Note: Significant at the \*\*\*p-value < 0.001 level.

UET, AT, and ST. For example, H1 is supported indicating that Korean executives' religiosity has a positive relationship with CSR ( $p < 0.001$ ). This suggests that the link between Korean executives' religiosity as an individual-level driver and their firm's CSR activities as a firm-level outcome can be established. H3 is also supported indicating that Korean executives' ISR has a positive relationship with CSR ( $p < 0.001$ ). Similar to the result of H2, the link between Korean executives' ISR as an individual-level driver and the firm's CSR activities as a firm-level outcome can be established ( $p < 0.001$ ). H5 is also supported showing the mediating role of CSR on the relationship between Korean executives' religiosity and CFP ( $p < 0.001$ ). The result of H5 adds another layer to the current CSR literature by showing the mediating effect of CSR on the relationship between Korean executives' religiosity and the firm's financial performance ( $p < 0.001$ ). H6 is also supported showing the mediating role of CSR on the relationship between Korean executives' ISR and CFP ( $p < 0.001$ ). The result of H6 also adds to the current CSR studies by proving the mediating effect of CSR on the relationship between Korean executives' ISR and CFP ( $p < 0.001$ ). H7 is also supported indicating the positive relationship between CSR and CFP supporting ST ( $p < 0.001$ ). The result of H7 suggests that Korean firm's CSR activities can lead to an enhancement of CFP agreeing with the dominant view of the CSR-CFP relationship in the current CSR scholarship. H2 is also supported although not significant showing that Korean executives' religiosity is positively related to CFP ( $p = 0.257$ ). The result of H2 suggests that Korean executives' personal values such as their religiosity can lead to an enhancement of CFP. Although the link between an individual's religiosity and CFP is uncertain, the human mind can play an important role in influencing firm performance. Hence, the religiosity of Korean executives who have the authority to direct or control the firm's resources, which could ultimately impact firm financial performance should not be ignored. H4 is also supported although not significant showing that Korean executives' ISR is positively related to CFP ( $p = 0.798$ ). The result of H4 suggests that Korean executives' ISR as an individual-level driver can positively influence the firm's financial performance. Similar to the interpretation of the result of H2, Korean executives' ISR as their personal value should not be ignored since their ISR could ultimately influence their firm's financial performance.

## 5. Conclusion

This study makes several contributions to the understanding of the relationships between religiosity, ISR, CSR, and CFP. The empirical survey conducted in this study

demonstrates important contributions made in the current CSR literature. Specifically, this study reveals that the mediating effect of CSR is likely to result in higher CFP when interacting with religiosity and ISR in the Korean context. Hence, this study contributes to the current CSR literature by providing the contextual understanding of Korean firms' CSR activities and CFP in its relationship with Korean executives' personal values such as their religiosity and ISR. Korean executives' religiosity as an under-examined individual-level driver of CFP mediated by a firm's CSR activities could further be examined by other types of individual-level drivers. Moreover, future research can examine the individual-level drivers of employees, customers, or suppliers. Hence, this study contributes to Korean firms and society by shedding light on the importance of personal-level drivers of CSR and CFP in the Korean context.

Moreover, this research is built on two streams of literature, which are the upper echelon literature and the CSR literature. By examining the implications of the combinations of three theories of UET, AT, and ST in this study, new theoretical contributions are provided. Apparently, this study provides a very fruitful way of using three theories based on two different streams of literature to derive theoretical contributions. While this study only incorporates UET, AT, and ST in the conceptual framework to explain the relationships between Korean executives' religiosity, ISR, CSR, and CFP, other theoretical perspectives can be considered in future research.

This study also provides practical implications. Many Korean firms that are involved in CSR practices can be aware of the importance of executives' personal religiosity and their ISR. Therefore, this study contributes to practitioners who value a firm's CSR activities. The findings from this study provide important implications for managers, policymakers, and market participants not only in South Korea but also in other country contexts that have similar cultural characteristics to South Korea such as China or Japan. Therefore, the findings in this study can also provide practical implications to practitioners in other countries.

Despite several contributions made in this study, there are several limitations. First, since this study uses a survey examining the perception of executives about their religiosity, ISR, CSR, and CFP, objective observations of the constructs cannot be achieved. Due to the lack of an available database that provides information on Korean executives' religiosity and ISR, the objective assessment of these constructs was not possible. By conducting a survey with Korean executives, only subjective measures of the proposed constructs were used. Future research could try to look for any secondary database to provide readers with more objective observations of the constructs. Moreover, future research could use other research methods such

as an interview that might provide a more contextual understanding of how Korean executives' religiosity and ISR would result in an enhancement of CSR activities and firm financial performance. Furthermore, since survey data from Korean executives was collected only at once, this study cannot escape from the issue of common method bias. Future research could conduct surveys from not only Korean executives, but from other levels of employees in a firm, and could also conduct surveys at two or more different time period. Moreover, since this study focuses on Korean executives in various industries, future research can focus on Korean executives in specific industries. Other influences may arise by investigating the relationships of the constructs in specific industries in South Korea. Since there are differences in industry characteristics and different elements in each industry, future research can provide different insights to the current CSR literature by focusing on specific industries in South Korea.

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